Workers' Compensation Board – Alberta 2009 Annual Report

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Message to Stakeholders from the Minister

ALBERTA EMPLOYMENT AND IMMIGRATION

Office of the Minister

The safety of Alberta's workers is something I am passionate about. As the Minister responsible for Alberta's workers' compensation legislation, I am pleased to work with the Workers' Compensation Board to ensure this province's workers and employers have a strong and stable source of support when workplace injury strikes.

As Albertans, we are known for our work ethic and our commitment to achieving results. WCB-Alberta embodies that dedication and drive. Our workers' compensation system is successfully helping injured workers get back to work. By focusing on providing efficient rehabilitation assistance and by working closely with employers to provide meaningful modified work, even in tough times, the Workers' Compensation Board has realized positive results.

As you will see in this Annual Report, WCB-Alberta has ensured good stewardship of the assets required to pay the current and future costs of claims to achieve long-term financial stability for Alberta's workers' compensation system. Workers' benefits are protected for the long term, and employers' costs are stable and reflective of their safety performance.

In 2009, the time-lost claim frequency was down to 1.6 per 100 covered workers while the disabling-injury rate was also down to 2.8 per 100 covered workers. These are indicators that employers and workers continue to work together to achieve a safer Alberta.

As 2010 unfolds, we must all remain focused on ensuring that every worker returns home safely after a hard day of work. In 2009, 110 workers did not make it home.

We have to stay committed. We share that responsibility. We can make a difference.

Thomas A. Lukaszuk
Minister
MLA for Edmonton-Castle Downs

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Alberta workers' compensation system

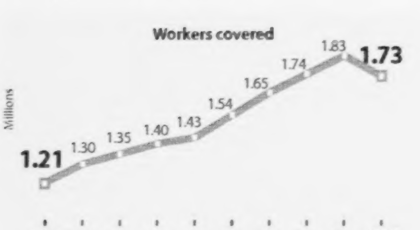
The Meredith Principles and the *Workers' Compensation Act.*

The Workers' Compensation Board – Alberta is guided by a set of fundamental principles articulated nearly 100 years ago by then-Chief Justice of Ontario, Sir William Meredith. In his report on workers' compensation, he outlined what are now commonly referred to as the Meredith Principles:

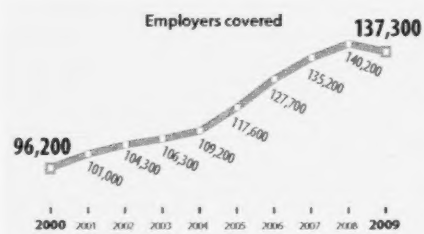
- Workers receive compensation benefits at no cost for work-related injuries.
- Employers bear the direct cost of compensation and, in return, receive protection from lawsuits arising from injuries.
- Negligence and fault for the cause of injury are not considerations.
- The system is administered by a neutral agency having exclusive jurisdiction over all matters arising out of legislation.

WCB-Alberta is the neutral administrator of the workers' compensation system in the province. Since 1918, our mandate has been defined by provincial legislation—the *Workers' Compensation Act* (the Act)—and has remained consistent with the Meredith Principles.

Albertans are protected by workers' compensation coverage.

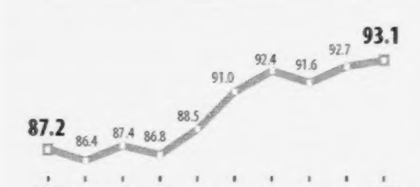


The system is funded by employers.



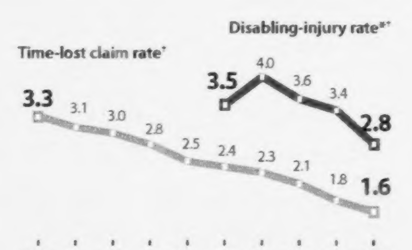
Vision

Albertans working—a safe, healthy and strong Alberta



Mission

WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.



*Not reported prior to 2005
+per 100 workers

Message from the Chair and the President & CEO

As an organization that deals with complex issues and has great impact on people's lives, WCB-Alberta has a responsibility to find the right services to meet our stakeholders' needs. That responsibility is not without its challenges, but in 2009 we were prepared with solutions that helped us achieve our goals.

The core solution in our business is excellence in case management, which is vital to our focus on return to work. We commit to making fair decisions based on policy and legislation and writing strong case plans that map out the expected course of a claim. We also put great effort into communicating decisions openly and clearly to ensure understanding. Good communication helps build trust and sustain relationships with our partners. In a system like ours, financial results provide stability, yet it is relationships that truly make us successful. One measure of this success is the quality of our decision letters; in 2009 our written decision communication quality reached 90 per cent.

Communication was crucial in our 2009 return-to-work efforts, as employers and workers were tested by a lagging economy and deteriorating job market. Modified work discussions and extra efforts from all of our partners became critical to our endeavour to return injured workers to full employment. Those efforts helped mitigate the recessionary impacts of the economy, resulting in a very small increase in the average length of time injured workers were away from the job.

The benefits and services we provide rely on a stable and well-funded system. Premiums paid by employers ensure benefit security for workers and reflect the costs of claims for employers. Our fund balance includes investments, which put premium revenue to work before it is needed to cover the future costs of current and prior-year claims. In the midst of a tumultuous 2009 market, our portfolio management activities and awareness of risk helped diminish the impact of market volatility on our investment results. With positive investment returns and solid operational results, the funded position rebounded, ending the year at 128.4 per cent.

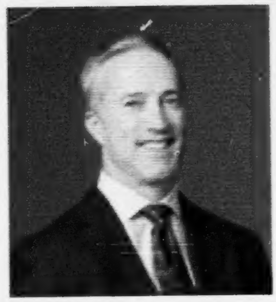
This business requires careful attention to the financial and personal needs of the system and its stakeholders. None of this would happen without the care and commitment of an exceptional group of employees. We are proud to see the efforts they make every day, and the energy they put into providing the right solutions for our clients.

Our plans and our people adjust as needed to ensure we remain committed to return to work while meeting the changing requirements of a more complex society and economy. Our stakeholders share in the success of our system. By listening to their needs and continuing to work to achieve the right results, we all succeed together.

David B. Carpenter, *Chair, Board of Directors*
Workers' Compensation Board – Alberta

Guy R. Kerr, *President & CEO*
Workers' Compensation Board – Alberta

2009 Board of Directors



Guy Kerr
President & CEO

David Carpenter
Chair, Board of Directors

Representative of the interests of **Employers**

Fauzia Lalani

Bob Normand

Don Oborowsky

Representative of the interests of **Workers**

Tim Brower

Richard Mirasty

Mia Norrie

Representative of the Interests of the **General Public**

Jim Kallal

Norbert Van Wyk

Robert Nicolay†

† Appointed to the Board of Directors Dec. 8, 2009

Effective governance ensures that an organization realizes its objectives, manages resources and reflects the interests of stakeholders in key decisions.

WCB-Alberta's Board of Directors embodies good governance through its focus on the long-term impact of the organization's strategic direction, plans and results. The board's 10 members bring diverse experience and perspectives to their roles, ensuring they are true stewards of the workers' compensation system in Alberta.

The board is accountable to all Albertans through the Minister of Employment and Immigration. In turn, the board holds WCB management accountable for maintaining a compensation system that works for all stakeholders.

Committees of the Board of Directors

Board committees review information from all areas of the business, and identify and assess risks to help WCB-Alberta make informed decisions.

Audit Committee

Reviews the audit and risk management functions of the organization, including financial statements, the annual report, internal controls over financial reporting, external audit processes and management audit.
Members: Norbert Van Wyk, Bob Normand, Fauzia Lalani and Mia Norrie*

Finance Committee

Oversees the organization's financial strategies and performance, from the budget and financial plan to economic and business assumptions, premium-rate setting and investment management.
Members: Norbert Van Wyk, Bob Normand, Fauzia Lalani and Mia Norrie*

Governance Committee

Regularly reviews governance policy and ensures the Board of Directors consistently demonstrates a best-practice approach in its role
Members: Don Oborowsky, Tim Brower, Robert Nicolay** and Norbert Van Wyk*

Human Resources and Compensation Committee

Oversees human resource matters, including management and compensation philosophies, corporate goals, objectives and performance measures.
Members: Jim Kallal, Don Oborowsky, Robert Nicolay** and Mia Norrie*

Policy Committee

Reviews policies and legislative changes related to benefits and premiums, and ensures stakeholder involvement in policy development and revision.
Members: Fauzia Lalani, Jim Kallal, Tim Brower and Richard Mirasty*

** Denotes committee chair*
*** Appointed to this committee in 2010*
David Carpenter, Chair, Board of Directors, and Guy Kerr, President & CEO, are ex-officio members of all committees

Strategic Management Council

WCB-Alberta's Strategic Management Council (SMC) has a clear strategy and the right corporate objectives to engage employees and deliver on our vision of Albertans working.

Pictured from left to right

Ron Helmhold, Chief Financial Officer

We build comprehensive financial strategies that are grounded in a rigorous process and honour our risk profile. We are clear on who we are and what risks we are willing to take with respect to our funding policy and investments.

Alberta's workers' compensation system is financially secure for the long term, benefiting both workers and employers.

Wendy King, VP Disability and Information Management

Our focus on the core business of return to work drives everything we do and can be measured at the desk level. We understand our core business and focus on it passionately. Together with our partners, we help injured workers get back to the job successfully by setting the right return-to-work goals, expediting services and assessments, and exploring safe and appropriate modified work opportunities.

Guy Kerr, President & CEO

We believe in accountability at all levels. Our employees are engaged and demonstrate commitment to their clients every day.

I am extraordinarily proud of their compassion and dedication to workers and employers. Their hard work and commitment to fairness make our organization successful.

Our stakeholders are our partners, and we value and share in their commitment to a safe and timely return to work. Alberta's system is stable because we work together to achieve positive results.

Dieter Brunsch, VP Customer Service and Risk Management

WCB-Alberta has focused on financial incentives and information sharing to motivate employers to reduce injuries and implement best practices in disability management. Leveraging prevention through pricing has been WCB's strategy to support healthy and successful workplaces. Our approach reflects feedback from employers and translates into supportive work environments for workers.

Roxy Shulha-McKay, VP Employee and Corporate Services

Our people are our greatest resource, and we are committed to their well-being and success. Achievement of WCB's corporate objectives and maintaining excellence in workplace disability management are contingent upon having a skilled, engaged and productive workforce. As an employer of choice, we provide the framework to recruit, develop, assess and reward our employees to carry out our mission while providing a secure workplace and best-in-class facility services.

Our commitment also extends to our stakeholders through information, corporate performance reporting and stakeholder meetings to engage their participation and reflect their priorities. Together we can minimize the impact of workplace injury and illness for Albertans.

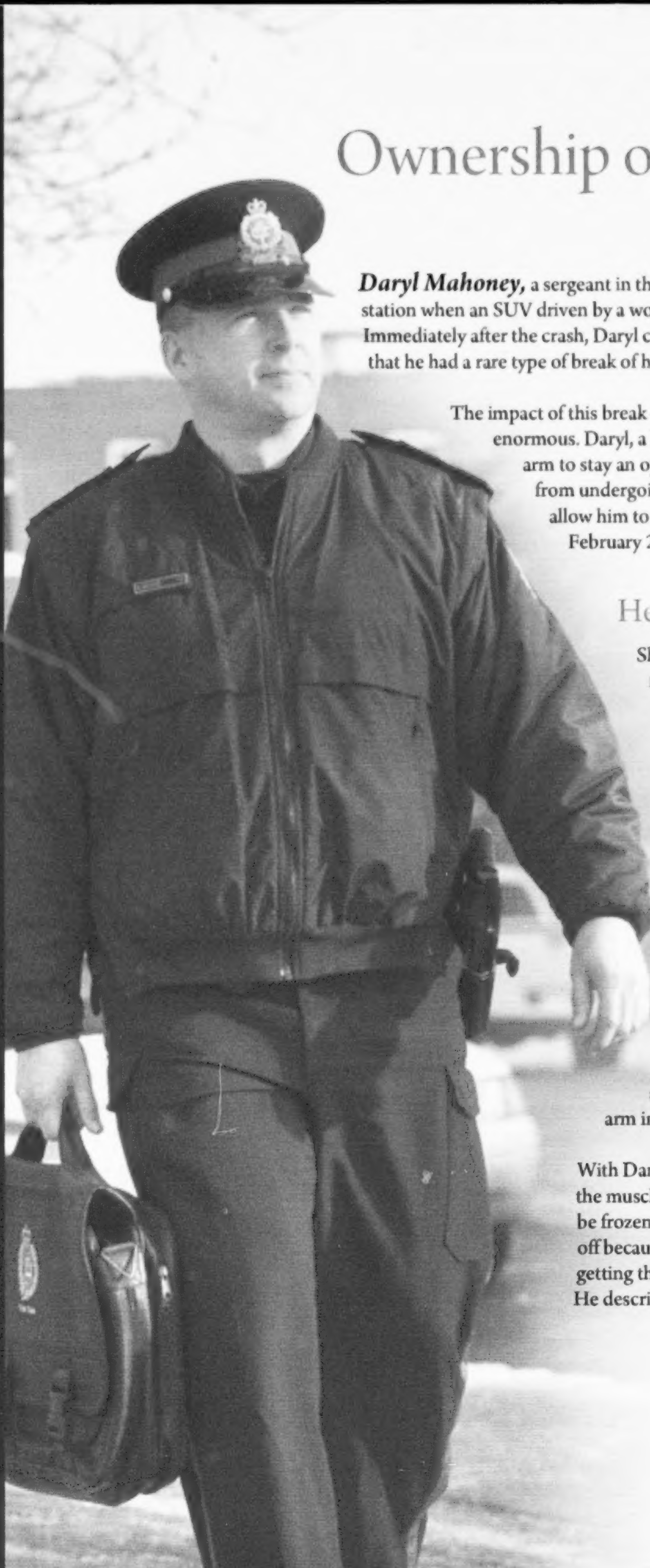
Douglas Mah, Secretary and General Counsel

WCB works to uphold the principles of workers' compensation and to ensure that legislation and policy are applied fairly, accurately and consistently at all levels.

Every stakeholder has a voice in Alberta's workers' compensation system. Through a free appeals advisory service available to injured workers, we ensure we maintain a system that is accessible and open.

“What I needed from WCB was access to the people who would give me a fighting chance at getting my quality of life back.”

– Daryl Mahoney, Edmonton Police Service sergeant



Ownership over recovery

Daryl Mahoney, a sergeant in the Edmonton Police Service, was driving to his station when an SUV driven by a woman without a licence hit the front of his car. Immediately after the crash, Daryl couldn't feel his left arm. It was soon discovered that he had a rare type of break of his shoulder socket, and had a brief dislocation.

The impact of this break on the active sports enthusiast's life was enormous. Daryl, a left-hander, has to have a fully functioning arm to stay an operational police officer. He was also days away from undergoing physical and shooting exams that would allow him to volunteer at the Vancouver Olympics in February 2010.

Healing the shoulder

Shoulder breaks are commonly operated on to reunite the broken bones, and, in the hours following the injury, it was recommended that Daryl have surgery. That's when Daryl had a frank discussion with the doctor about his options—the first of many discussions he would have regarding his recovery. "I know me best, and I don't think there is a human being out there that should give anyone else carte-blanche over their health ... you have to be responsible for that."

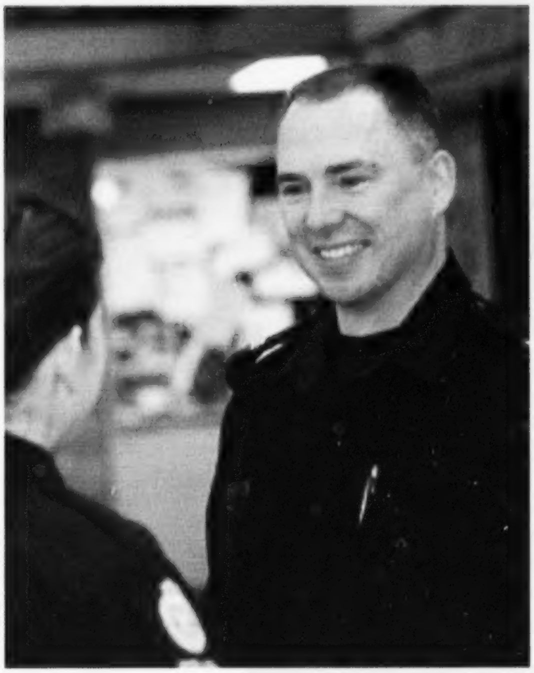
After some investigation, Daryl and the surgeon thought a brace holding the shoulder in the right position would allow the bones to come close enough to heal. The idea worked, which spared Daryl from surgery, but it also meant that he had to have his arm immobilized in a brace for eight weeks.

With Daryl's arm and shoulder immobilized for so long, the muscles would be weak and the shoulder joint could be frozen. "I wasn't looking forward to the brace coming off because I knew that it was going to be a major obstacle getting the motion in the shoulder back." And it was. He describes rehabilitation as "slow, hard and painful."

A clear focus drives results

"What I needed from WCB was access to the people who would give me a fighting chance at getting my quality of life back," says Daryl.

Daryl completed six weeks at WCB's Millard Health rehabilitation centre and took the same approach to rehabilitation that he did with his doctor. He took an active role in his recovery by helping Millard staff shape his treatment, and by being clear on what he needed to be able to do in his role as a police officer (e.g., lifting, climbing, shooting a gun). He was very vocal during rehabilitation, identifying the exercises that worked and those that didn't. "You owe it to yourself to tell the people who are trying to help you that 'this' is what I need from you ... and they are professionals and they heard that."



Creative teamwork

Responding to Daryl, staff got creative to meet his needs. "I am sure that there's no textbook that has some of the exercises [staff] gave me. Once we knew what movements I needed to be able to do, [they] came up with exercises for them."

Millard staff appreciate working with clients like Daryl. Brian Podruzny, occupational therapist at Millard, says, "Daryl had clear goals from the start. He was willing to try any treatment recommendations the team had and gave very specific feedback as to which exercises gave him the most improvement. Daryl's work ethic and feedback were key to achieving his goals and the goals of the treatment team."

Daryl was also intensely motivated to volunteer at the Olympics, and Millard staff put in extra effort to help him realize his goal. "I imagine the people at [Millard] were happy to see me go because I monopolized a lot of their time with my demands for attention, and exercises and drills." Daryl was very opportunistic, watching for other rehabilitation clients to take a break, freeing up a professional to give him some time.

"People at the Millard centre were very, very professional. I believe I received the best care I would have received anywhere else in the world," says Daryl. He has a word of advice for others, though: "Ask questions about what your injury is, do a little bit of research, get on the computer ... be very active in the program they develop for you."

Back on the job

With determination to put in his maximum effort and his Olympic goal pushing him to meet strict timelines, Daryl responded very well to therapy and was able to pass the necessary examinations to be classified as an operational officer. He not only returned to the job, he went to the Vancouver Olympics, working in the main media centre.

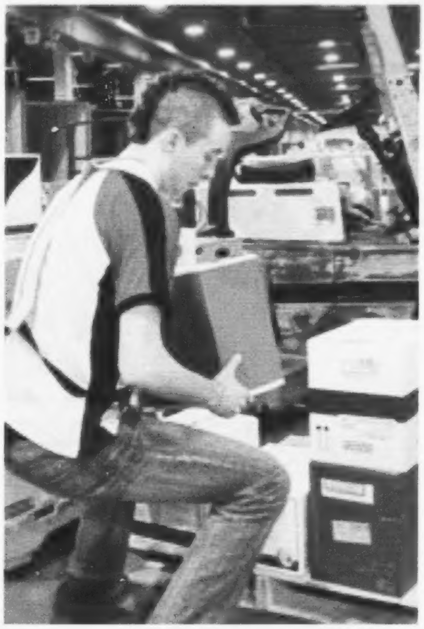
2009 numbers

- **6,847 workers** received services at Millard Health in Edmonton, including assessment, treatment and vocational services.
- **4,040 claims** were accepted where the primary injury was a shoulder injury.
- **Ninety-one per cent** of workers returned to work with their existing employer.
- **Two per cent** of workers returned to other employment.

"We are very proud to say that when somebody is injured here they let us know."

Albertans working – a safe, healthy and strong Alberta

– David Roberts, health and safety manager



Evolving health, safety and disability management

It's heavy work, and it's not for everyone. Picking 15- to 20-kilogram boxes off of shelves all day (usually about 1,000 boxes) isn't something everyone can do. That's the reality of the job at Connect Logistics.

Connect Logistics, with over 300 employees, is the sole distributor of all liquor (aside from domestic beer) to about 1,100 liquor stores throughout the province. These employees deal day-to-day with an astounding volume and variety of product, requiring them to run a very efficient operation—one where health, safety and disability management play an integral role.

When the economy was overheated in 2006-07, Connect's health and safety system was challenged. High turnover rates made it difficult to find people who could best fit into the physically demanding job.

A new approach

"We are very proud to say that when somebody is injured here they let us know," says David Roberts, health and safety manager at Connect. This wasn't always the case, and one WCB-created initiative has played a big part in facilitating this communication—the Occupational Injury Service (OIS). "People were not always telling us about their injuries because they didn't want to sit in the hospital for eight hours. Now, we have had people injured during the dayshift [who have] gone to OIS and been back in one hour," David says.

At first David and Brenda MacDonald, Connect's disability management co-ordinator, thought they would have a hard sell with OIS. It was something new and it might be difficult to get staff to try it out. Now, the only difficult thing about OIS is telling staff that they can't use it for visits that aren't work-related. Ninety-two per cent of injured staff at Connect have opted to use OIS so far.

At an OIS location (there are a number set up across the province), workers who don't require immediate emergency care are seen shortly upon arrival, assessed and sent for

any further tests (such as an X-ray). Ideally the employer is also at the first visit, where he or she discusses with OIS staff and the worker the best return-to-work plan. Brenda comments, "How many times does an employer have the opportunity to have a conversation with a doctor or nurse regarding an injury? Never."

With OIS it's different, and Brenda can easily obtain vital return-to-work information. This is a huge help when she sets up modified duties for the injured person. The efficiency and thoroughness of OIS have also allowed Connect to see drops in their time-lost claims. "We can get our people back to work quickly," David says, "The faster they are back at what they were doing, the better off they are."

Connect Logistics and WCB

Over the last few years, Brenda has formed a close working relationship with WCB, and she recommends that other organizations do the same. WCB account manager Tanya Shelton made a number of visits to Connect, armed with ideas for them to strengthen their disability management, including introducing them to OIS.

Brenda has also been impressed with the adjudication and case management of their claims. Most of Connect's claims are handled by one WCB customer service team that also manages claims for Connect's parent company. Three members of this team even visited Connect's facility to see the tasks staff perform and to check out available modified duties. Brenda felt that this visit was "pivotal." WCB could understand exactly what they do.

Evolving

Connect is in a good position to concentrate on "continuous improvement" with their health, safety and disability management programs.

Management has set up a comprehensive information area in a high-traffic location, and they conduct meetings at every shift change to improve communication with staff. They also recently introduced a program to be proactive with back injuries—one of their most common types. Staff are provided with exercises to make their backs stronger and stretches to prevent strain.

David says a person couldn't open a facility like Connect tomorrow and immediately expect to have a perfect health and safety program. It has taken years to get to where they are today, and they are still evolving.

Stay in the game with Occupational Injury Service (OIS)

Offering quick access to physicians and therapists and providing diagnostic testing for the assessment, treatment and rehabilitation of injured workers, OIS opens up communication between the health care provider, employer and worker.

More information: www.wcb.ab.ca/employers/partner_ois.asp

- **OIS is available in 18 locations** across Alberta, including clinics in Calgary, Edmonton, Red Deer, Fort McMurray, Grande Prairie, Leduc, Lethbridge and Medicine Hat.
- **1,199 employers** signed up for OIS in 2009 and **4,658 client visits** were made.

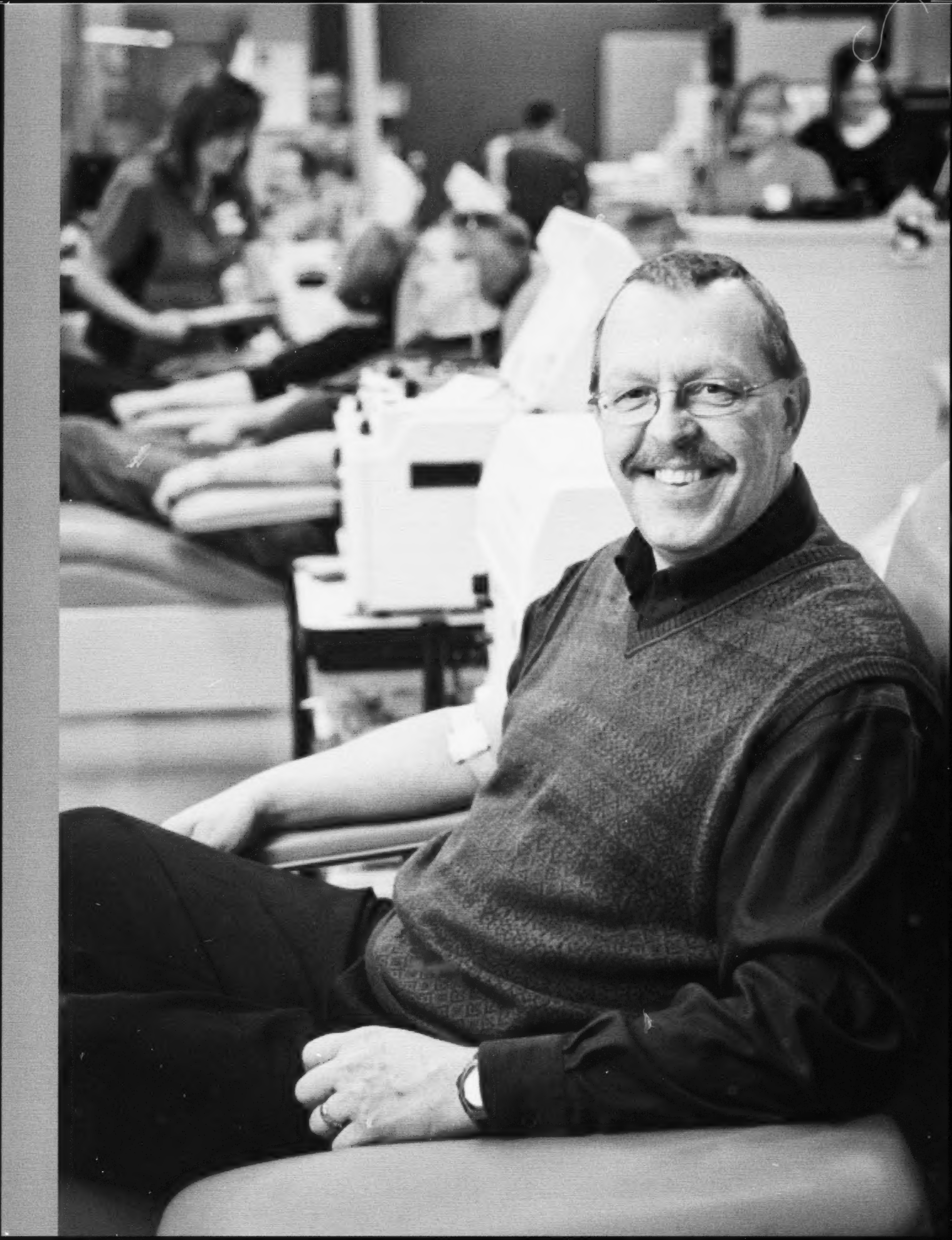
2009 numbers

- **Approximately 43 per cent** of disabling-injury claims resulted in no time away from work because employers provided modified work.
- Account managers partnered with 208 selected employers to focus on early and safe return-to-work practices. This resulted in a **22 per cent reduction** in time-lost claims and a **nine per cent reduction** of all costs on new claims for those employers.

"When I see a need, I have a tough time turning aside and ignoring that need."

Albertans working—a safe, healthy and strong Alberta

– Jans Pops, WCB employee



Reaching out to our community

As an Alberta business with 1,500 dedicated employees and over a million customers, we realize that our impact on the province extends beyond our business results. WCB employees see themselves as partners within the community and get involved to make a difference.

Being the giver

Two years ago, eagerness turned to anxiety when Jans Pops' daughter-in-law experienced life-threatening complications while delivering her baby, requiring the use of blood and blood products.

Jans, a member of the program development and risk management department at WCB, has been a regular blood donor for years, but never before had he experienced such a serious and immediate demonstration of what a blood donation can mean, especially for someone so close to his heart. That's when Jans turned his commitment to helping others into a personal mission.

By co-ordinating staff donations and spearheading WCB's involvement in the Canadian Blood Services' Partners for Life program, Jans has brought his blood-donation involvement to a new level. Donations are up from WCB employees, and more lives are being saved.

"When I see a need," says Jans, "I have a tough time turning aside and ignoring that need. We, ourselves, are only moments away from needing something, maybe a few units of blood, or some encouragement, or something to eat. Right now I can be the giver; down the road I might be the receiver."

Jans' motivation isn't unique. WCB employees have a generous spirit, and it shows. Many staff members donate to local charities through payroll deductions, food and clothing drives, and volunteer efforts of all kinds.

The right spirit

Providing excellent service to Albertans doesn't stop after business hours. WCB employees donate directly to 14 local charities through payroll deductions and to countless others through the Community Works initiative.

Staff efforts are supported through WCB's volunteer day program, where they are given a day each year to volunteer, and celebrated through annual individual and team recognition awards—the Ambassador program and the Team Spirit Award.

Santas Anonymous, Coats for Kids and Families, Tools for School, Edmonton's Tri-Shelter Christmas Hampers, Hope Mission, Habitat for Humanity, Edmonton's Humane Society, the Make-A-Wish Foundation, the Youth Emergency Shelter Society, the Edmonton Food Bank and many more organizations and programs received the support of WCB's caring people.

Helping is a part of every day

WCB volunteers bring to fundraising efforts their commitment to achieve. Employees held book sales, bottle recycling drives, bake sales, 50/50 draws and so much more to help Albertans in need. Events such as the annual charity golf tournament helped raise $40,000 for Alberta's brain injury societies, and the parking fundraiser during Edmonton's Indy helped raise $24,500 for the Robin Hood Association.

"It's satisfying sharing my time for a good cause, and then seeing others want to get involved too, creating a positive spinoff!"

– Natasha, WCB Customer Service

"I like to volunteer as it is an opportunity to work with people with similar interests while doing something worthwhile."

– Edna, WCB Employee and Corporate Services

"Volunteering in support of Edmonton events and community support groups is very rewarding when you see the result of how you helped and meet the people it affects."

– Dick, WCB Employee and Corporate Services

Caring for our environment

Leaving a positive impact in the community also means doing what we can for our environment. We strive to be more green by understanding and improving our energy management and waste reduction. We also promote environmental stewardship in the community by emphasizing reducing, reusing and recycling among our employees.

2009 highlights:

- **Twenty-five per cent** of our electricity consumption came from renewable energy resources, including wind power—that's equivalent to planting 10,961* trees.
- **We supported events** such as green trade fairs, used book sales and community cleanup programs.
- **We continued to focus** on paper reduction and energy efficiency.
- **We completed** the Building Owners and Managers Association of Canada's building environmental standards certification (BOMA BESt) to assist with waste and energy reduction efforts in our facilities.

**Source: Nexen Energy Solutions*

Our business results

Our strategic plan defines our approach to achieving our mission. Four strategic themes form the core of our business planning and ensure our work is focused in the right direction: return to work, fairness, leveraging prevention and financial stability.

Strategic theme	Measure	Target
1 FOCUS ON RETURN TO WORK WCB strives to minimize the impact of illness and injury—aligning the people, systems and strategies that drive results. 	**Return-to-work success**	Through timely customer service interventions, manage return-to-work outcomes on cases lasting longer than three months to an active claim count of 886 cases.
	Post-injury wage quality	Through timely vocational interventions, ensure 70 per cent of our supported job search services clients achieve more than 75 per cent of their pre-injury income.
	Return-to-work planning effectiveness	Through effective return-to-work planning, help injured workers maximize their post-injury earnings. Do not exceed the capitalized economic loss payment budget of $65.2 million by more than 10 per cent.
	Return to work safely	Increase modified work placement on all disabling claims by discussing modified work with employers on 90 per cent of all cases where total disability has lasted longer than 21 days.
2 COMMITMENT TO FAIRNESS WCB ensures that decisions and plans are balanced and appropriate for workers and employers. 	**Achieve communication quality**	Maintain superior customer service by achieving a quality score of 85 per cent on key decision communication letters.
	Make it easy to work with WCB	Enhance online services for WCB stakeholders by leveraging a new external security application and the introduction of new portal technology.
	Provide the tools to promote good work	The Legacy project is a five-year plan focused on optimizing internal process and reducing technical complexity while re-platforming critical Legacy systems.
3 LEVERAGING PREVENTION WCB works closely with its partners to foster and reward the right safety and disability management behaviours. 	**Promote safety**	Increase the number of Partnerships in Injury Reduction companies covered by a Certificate of Recognition (COR) by three per cent.
	Promote accountability	Double the number of industries participating in an industry custom pricing program from the 2009 baseline of 46 industries.
4 FINANCIAL STABILITY WCB delivers on the commitment to minimize the impact of injury and illness—building stability and security for the future. 	**Manage the system effectively**	Through operational initiatives, achieve transaction-year claim costs that do not exceed the 2009 budget by more than five per cent.
	Plan effectively	Achieve 95 per cent of the premium revenue target set for 2009.

Our corporate objectives help us achieve balance within our organization and turn our strategic themes into action. The measures selected deliver the right results for workers and employers.

Result	Analysis
821 clients remained totally disabled three months post injury	This year a lagging economy presented significant return-to-work challenges for injured workers and employers. Disability management teams provided the right support and services to help workers achieve their return-to-work goals.
64.2% of workers achieved positive post-injury wages	Most workers return to their pre-injury jobs; however, a few injured workers with significant return-to-work challenges require a supported job search to achieve return-to-work success. Most of those who used this assistance found suitable work to earn at least 75 per cent of their pre-injury income. We fell a little short of our target because of a lagging economy and a deteriorating job market.
0.1% variance from budget	Economic loss payments reflect the gap between a worker's pre-injury income and his or her post-injury ability to achieve that income. The favourable variance achieved represents strong post-injury results for workers, which minimized the long-term impact of their workplace illness or injury on their earnings.
83.4% modified work discussions	Modified work provides on-the-job rehabilitation and support for injured workers. Employers benefit from the contributions of experienced staff, and injured workers stay connected with colleagues and productive while they recover.
90% quality achieved	Written communication provides the evidence of our commitment to fairness with clear communication of the decisions made on a claim. All correspondence from WCB fully explains key aspects of a claim in language that is meaningful to the reader.
Project delivery moved to 2010	WCB is enhancing online services and is moving in the direction of a seamless integration for all online applications within myWCB—the new online service portal. Delivery of single sign-on is on track with our revised schedule for mid-year 2010.
Projects delivered	Through a variety of system updates, WCB achieved significant process enhancements to: • reduce the number and streamline the recovery of overpayments to workers, employers and service providers, • automate claim assignments for adjudicators to assist with workload balancing, and • enhance claim benefit pre-authorizations and payments.
12.6% increase in COR holders	There are 8,645 COR holders in the province. Despite the economic downturn, employers have continued to value prevention and disability management and worked hard to either achieve or maintain their COR status in 2009.
124 participating industries	From the baseline we more than doubled the number of participants. Through industry custom pricing we offer flexibility while strengthening accountability by more closely reflecting an employer's claims performance within our collective liability insurance model.
2.7% variance from budget	Effective return-to-work programs helped achieve a transaction-year claim costs outcome of almost $562 million, $15.3 million below budget.
93% of premium revenue target	The lower than budgeted premium revenue reflects a decrease in insurable earnings in 2009 combined with a shift in insurable earnings into lower-rated industries.

Summary of Claims Administered

	2009		2008	
Active claims as of January 1		27,489		27,963
New time-lost claims	26,486		31,756	
New medical-aid-only claims	113,712		136,140	
Total new claims reported	140,198		167,896	
Recurrent claims[1]	34,758		16,696	
	174,956	174,956	184,592	184,592
Total claims administered		202,445		212,555

[1] *Previously inactive claims that required further adjudication or case management. Claims may reopen for a number of reasons such as payments for medical aid or requests for further compensation benefits.*

Ineligible claims

TIME-LOST CLAIMS	2009	2008
Insufficient information available to process claim	194	216
Not covered under *Workers' Compensation Act*	113	128
Injury or illness not arising out of/in course of employment	1,902	2,037
Other	8	9

MEDICAL-AID-ONLY CLAIMS	2009	2008
Insufficient information available to process claim	4,158	4,416
Not covered under *Workers' Compensation Act*	1,831	1,765
Injury or illness not arising out of/in course of employment	3,630	3,667
Other	31	23

Return to work with new or accident employer

	2005	2006	2007	2008	2009
Total return to work	91.0%	92.4%	91.6%	92.7%	93.1%
Return to accident employer	88.4%	90.1%	89.2%	90.4%	91.4%
Return to other employment	2.6%	2.3%	2.4%	2.3%	1.7%

Number of modified-work-only claims as a percentage of claims reported

2005	2006	2007	2008	2009
13.6%	14.9%	15.7%	17.1%	14.8%

New claims by nature of injury	2009	2008
Sprain or strain	49,598	59,109
Superficial wound	24,204	29,970
Open wound	23,143	28,338
Occupational illness	11,680	11,533
Fracture, dislocation or nerve damage	6,227	7,387
Burn or scald	3,975	5,031
Multiple traumatic injuries	2,585	2,396
Intracranial injury	713	807
Environmental conditions	261	360
Other traumatic injury	14,767	17,681
Non-personal damage	408	519
Unclassified	2,637	4,765
TOTAL	140,198	167,896

New claims by part of body	2009	2008
Back	21,597	26,037
Finger(s)	19,058	23,908
Hand(s) or wrist(s)	15,131	18,569
Chest or shoulder(s)	13,889	15,969
Eye(s)	7,061	9,490
Foot (feet), toe(s) or ankle(s)	10,434	13,431
Arm(s)	9,659	11,805
Head	11,265	13,222
Knee(s)	8,170	9,556
Multiple parts	6,880	7,044
Leg(s)	4,731	5,759
Neck	2,808	3,464
Hip or pelvis	1,689	1,840
Ear(s)	3,026	2,874
Body system(s)	2,749	2,619
Abdomen	849	886
Non-personal damage	412	529
Unclassified	790	894
TOTAL	140,198	167,896

2009 Financial Highlights

Premium revenue of $908.5 million was below budget by $66.5 million and down $85.3 million from 2008, reflecting lower wage growth and employment decline.

Average premium rate of $1.24 per $100.00 of insurable earnings was $0.08 under budget. This is 6.8% lower than the average rate collected in 2008.

Investment revenue of $220.0 million reflected the rebound in financial market performance. The result was $214.3 million above budget and $641.3 million higher than in 2008.

Claim costs of $704.7 million were $373.7 million under budget and $266.9 million lower than in 2008, due primarily to actuarial adjustments.

Administration expenses of $78.6 million were 3.1% under budget and $3.5 million lower than in 2008.

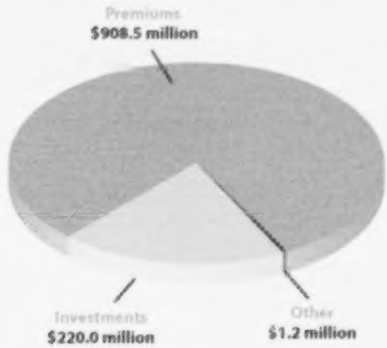
Operating surplus of $306.8 million was $524.1 million above budget and $820.6 million higher than in 2008.

Funded Position of $1,433.2 million increased by $842.9 million over 2008.

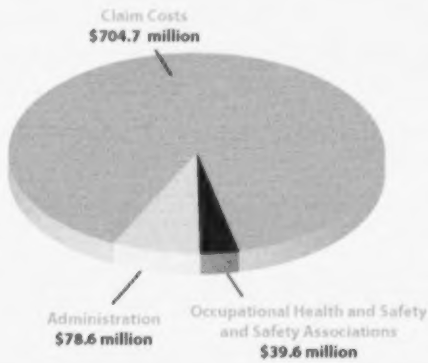
Investment portfolio increased by $891.7 million, or 16.4% above 2008 on a fair-value basis.

Claim benefit liabilities rose $1.3 million, a negligible increase over 2008.

Revenue Breakdown: $1,129.7 million



Expenses Breakdown: $822.9 million



WCB-Alberta

Management Discussion and Analysis of Financial Statements and Operating Results

For the Year Ended December 31, 2009

Appendix

Management Discussion and Analysis of 2009 Financial Statements and Operating Results

The Management Discussion and Analysis (MD&A) provides management's perspective on key issues that affect current and future performance of the Workers' Compensation Board – Alberta (WCB-Alberta, WCB). The MD&A, prepared as at April 16, 2010, should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2009.

Forward-looking statements

This report contains forward-looking statements about certain matters that are by their nature subject to many risks and uncertainties, which may cause actual results to differ materially from the statements made herein. Forward-looking statements include, but are not limited to, WCB objectives, strategies, targeted and expected financial results, and the outlook for WCB's business and for the Alberta and global economies. Risks and uncertainties include, but are not limited to, changing market, industry and general economic factors or conditions; changes in legislation affecting WCB policies and practices; changes in accounting standards; the ability to retain and recruit qualified personnel; and other risks, known or unknown. Some are predictable or within WCB control; many are not. The reader is hereby cautioned to not place undue reliance on these forward-looking statements.

Unless otherwise indicated, all amounts shown are in millions of Canadian dollars.

Business Overview

Corporate profile

Founded in 1918, WCB-Alberta is a not-for-profit organization with a legislative mandate under the *Workers' Compensation Act* (the Act) to administer the workers' compensation system for the province of Alberta. While accountable to the Minister of Employment and Immigration, WCB is not a provincial government department or Crown corporation, but is independently funded and operated as an insurance enterprise. Through the payment of premiums, over 137,000 employers fund the system, which covers more than 1.73 million workers.

WCB-Alberta's mandate

In Canada, workers' compensation is a no-fault disability insurance system that protects both employers and workers against the economic impact of work-related injuries and occupational diseases. Based on the Meredith Principles,[i] the system covers injured workers for lost employment income and provides health care, rehabilitation and other services required because of a work-related injury, while employers are shielded from litigation. This system brings economic stability to the workplace through collective liability that minimizes the risks and expenses of injury. To achieve these objectives, the Act established the Accident Fund and imposed a statutory obligation on WCB to ensure that it be fully funded.

[i] *Refer to the Glossary for an outline of the concepts.*

At the highest and simplest level, WCB is involved in two significant and complementary business activities: customer operations and financial management.

Customer operations provide disability insurance for workplace injuries. Key business processes include assessment and collection of premiums from employers, payment of compensation benefits to injured workers and return-to-work services.

Financial management uses an integrated risk-based approach to managing assets and liabilities and generating an adequate return on invested assets to pay for claim-related obligations. Key business processes include strategic financial planning, rate setting, investment management, claim benefit liability valuation, financial risk management and financial-performance reporting. Strong financial management not only ensures security of benefits for workers and fair premiums for employers, but also provides appropriate tools for evaluating how effectively WCB is meeting its financial obligations.

WCB vision and mission

The core principles set out in WCB's vision and mission shape the corporate beliefs and values that guide the organization's operating philosophy:

> Vision
> *Albertans working—a safe, healthy and strong Alberta*
>
> Mission
> *WCB-Alberta, working together with our partners, will significantly and measurably reduce the impact of workplace illness and injury on Albertans.*

WCB's strategic vision is to make a positive and lasting impact on the people, society and economy of Alberta through what it does, while the mission statement describes the operating guidelines for how it intends to conduct business.

2009 Financial Performance

OPERATING HIGHLIGHTS

Once again, the major themes underscoring WCB-Alberta's financial results for the year centre around the Alberta economy and the global capital markets. WCB's financial position was positively impacted by the rebound in equity and corporate bond prices in 2009, while customer operations continued their commitment to service excellence and delivered outcomes that contributed positively to the financial performance for the year. The important themes that underscore the 2009 performance include the following:

- Total revenue of $1,129.7 million offset by total expenses of $822.9 million yields an operating surplus of $306.8 million, an increase of 159.7% over the $513.8 million deficit in 2008. These operating results contributed to the Funded Position of $1,433.2 million, or 128.4%.
- Total premium revenue of $908.5 million is down 8.6% from $993.8 million in 2008, reflecting a decline in insurable earnings in 2009 and a constant average provisional premium rate of $1.32 per $100.00 of insurable earnings in both 2009 and 2008.

- Investment revenue is up significantly in 2009 at $220.0 million, compared to a $421.3 million loss in 2008, due to realized gains on currency hedging and lower losses and write-downs on equities. The rebound in capital markets led to a return of 13.8% for WCB's investment portfolio for 2009, up considerably from the 2008 return of -15.1%.
- Total claim costs of $704.7 million decreased $266.9 million, or 27.5%, from the previous year due primarily to actuarial adjustments that decreased future liability amounts for health care and wage replacement-related benefits. Effective case management and the ongoing focus on return-to-work outcomes continued to produce impressive results on the cost side. Average claim duration did increase in 2009 ending the year at 35.2 days, due primarily to fewer modified work opportunities during the year and a continual decline of claims receiving benefits. Claim volume of 140,200 is down 16.4% from 2008, a substantially larger drop than the provincial employment decline of 1.4%.[ii] Time-lost claim volume, a subset of total claim volume, also saw a related decline of 17.4% during the year. Administration and other expenses of $118.2 million brought total expenses to $822.9 million.

The table below summarizes the major contributors to WCB's operating surplus of $306.8 million.

($ millions)	**2009 Budget**	**2009 Actual**	2008 Actual
Premiums			
Surplus premium revenue resulting from the actual premium rate collected of $1.24 (2008 – $1.33) being higher than the required premium rate of $1.16 (2008 – $1.21), based on insurable earnings	$ 11.6	**$ 55.3**	$ 86.0
Investments			
Net (deficiency) excess of investment income over the interest requirement of $257.9 million (2008 – $241.8 million) on the claim benefit liability	(255.9)	**(37.9)**	(663.1)
Claim benefit liabilities			
Change in health care inflation and utilization assumption	-	**134.4**	-
Losses due to changes in actuarial methods and assumptions and policy changes	-	**(37.7)**	(98.6)
Actuarial gains due to claims experience	26.7	**194.9**	156.4
Other			
Other revenue (expense) items	0.3	**(2.2)**	5.5
Operating surplus (deficit)	$ (217.3)	**$ 306.8**	$ (513.8)

In its simplest terms, the funding model for WCB operates on the premise that in a given year, premiums cover all operating costs on a break-even basis, while investment returns are expected to cover the annual interest requirement on the liability. Operating surpluses or deficits arise when actual costs and returns are different from forecast expectations, which rely on economic and business assumptions based on available information at a point in time. Given the volatile performance of local and global economies, forecasting is subject to a great deal of uncertainty and risk. Consequently, actual results will likely differ significantly from even the most rigorously developed plans.

[ii] *Alberta Employment and Immigration, Labour Force Statistics December 2009.*

Customer Operations

PREMIUMS

Insurable earnings

$1.4 billion (-1.9%) under budget

Alberta's economy felt the impact of the recession in 2009, which applied downward pressure on payrolls, decreasing 2009 insurable earnings to $72.6 billion, 1.9% lower than the budget of $74.0 billion. Although insurable earnings were higher in four sectors compared to budget, this was offset by lower than budgeted insurable earnings in five other sectors.

$1.0 billion (-1.4%) under prior year

Alberta employment decline and relatively low wage escalation were the primary factors for the 1.4% decrease in 2009. Manufacturing and construction sectors experienced the greatest decline with 11.9% and 11.7% decreases, respectively.

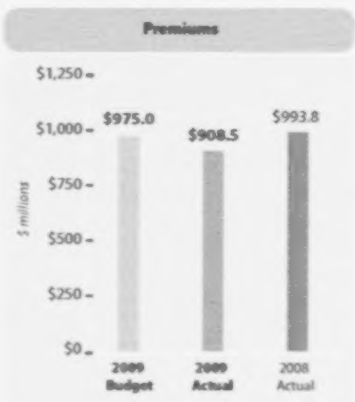
Premium revenue

$66.5 million (-6.8%) under budget

The 2009 negative variance in premium revenue of $66.5 million stemmed from an overall decline in insurable earnings combined with a shift into lower-rated industries. Manufacturing led all sectors at $23.1 million, or 13.6% lower than budget, with mining/oil and gas at $20.5 million (-21.9%) and transportation following at $12.5 million (-9.7%).

$85.3 million (-8.6%) under prior year

The decrease in revenue from $993.8 million to $908.5 million was due to a decrease in insurable earnings in 2009 combined with a shift in insurable earnings into lower-rated industries.



PREMIUM RATES

Total premium revenue requirements for rate-setting purposes are based on projected operating expenses for the year. Base revenue requirements are composed of fully funded costs of claims arising in the current year, administration costs related to those claims, general administration expenses for WCB operations, and transfer levies. In addition, premiums include a funding levy for the Occupational Disease Reserve (ODR) plus any special levies necessary to replenish the Accident Fund in accordance with the Funding Policy.

Average premium rate

$0.08 (-6.1%) under budget

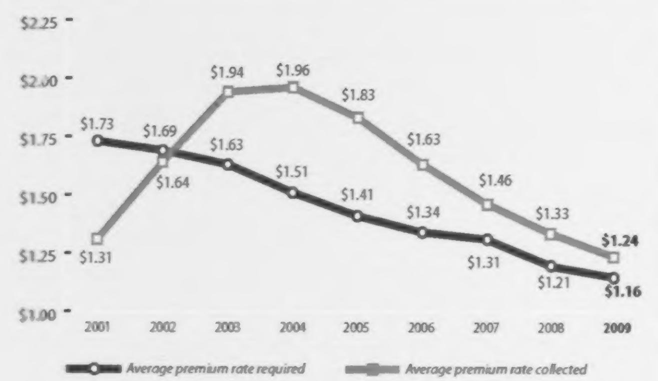
Lower wage growth, a decrease in provincial employment and a shift of the workforce into lower-rated industries all contributed to an average actual collected rate of $1.24, which was $0.08 below budget.

No budgeted change from prior year

The average budgeted premium rate remained constant in 2009 at $1.32. The projected increases in operating costs in 2009 were to be offset by the projected slight increase in insurable earnings over 2008.

Average Premium Rate

Average Premium Rates, Required versus Collected, 2001–2009



The chart presents a nine-year trend comparison of required versus collected premium rates. In 2001, the shortfall in the required rate resulted from subsidizing the rates through excess investment returns. Current and future premium rates are no longer discounted, as the Funding Policy stipulates that the required rate and resulting revenue cover the current-year fully funded claim costs.

The 2009 premium requirement and rate were based on projected fully funded claim costs and insurable earnings using the best information available in early Q4 2008. Better-than-expected cost performance continued to keep the required rate down below the collected rate for fiscal 2009. The surplus from cost performance offset the deficit from premium revenue and had a positive contribution, which increased the overall operating surplus.

CLAIM COSTS

Claim costs are an estimate of current and future costs arising from compensable injuries occurring in 2009, the future costs to administer these claims, and claim benefit liability adjustments relating to prior years' injuries.

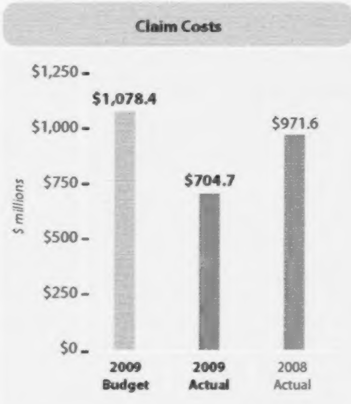
Claim costs

$373.7 million (34.7%) under budget

Dropping claim volume continued at an accelerated pace in 2009. A reduction in the actuarial assumption for health care cost escalation and favourable adjustments to the claim benefit liability resulted in claim costs considerably lower than expected.

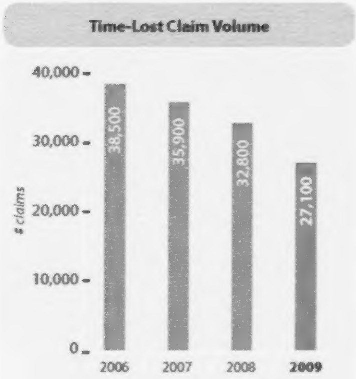
$266.9 million (27.5%) under prior year

The effects of lower time-lost claim (TLC) volume, combined with favourable actuarial adjustments to the claim benefit liability more than offset the effects of wage growth and other inflationary costs.



Claim benefit costs

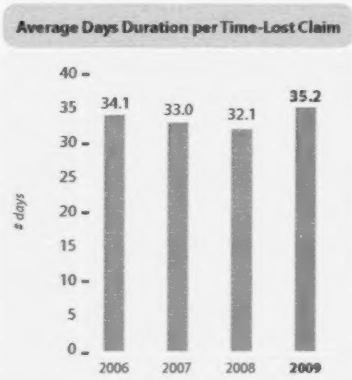
Processed claim benefit costs for 2009 were slightly below expectations. Transaction-year claim costs were lower than expected by $15.3 million due primarily to lower claim volume. Changes in the methods and assumptions relating to the claim benefit liability generated a positive budget variance of $97.4 million, and actuarial gains due to claims experience totalled $194.9 million. A lower provision for future costs of current-year claims of $65.4 million and other cost savings of $0.7 million, combine to produce the overall positive budget variance of $373.7 million.



Claim volume

Time-lost claim (TLC) volume fell from 32,800 in 2008 to 27,100 in 2009, a drop of 17.4%.

The significant drop in TLCs coincided with a decline of approximately 100,000 covered workers. The TLC projected rate continued to decline to 1.6 claims per 100 workers, a decrease of 11.8%. Similarly, the disabling-injury rate (TLC + modified-work-only cases = disabling injuries) dropped by 17.7%, to 2.8 disabling injuries per 100 workers.



Claim duration

Claim duration (average elapsed time from injury to return to work) increased for the first year since 2001, to 35.2 days, up from 32.1 days in 2008. This increase is due to fewer modified work opportunities during the year and a continual decline of claims receiving benefits (which produces a lower denominator in the calculation of average days).

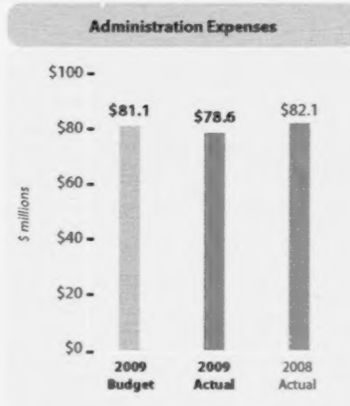
ADMINISTRATION

$2.5 million (3.1%) under budget

Administration came in under budget, due mainly to effective expenditure management.

$3.5 million (4.3%) lower than prior year

The decrease over 2008 reflects a higher distribution of costs to claim administration in 2009. Administration expenses exclude claim-related administration costs (2009 – $83.3 million, 2008 – $72.9 million) that are included in claim costs.



Financial Management

Investment revenue

$214.3 million (3,759.6%) over budget

Budgeted investment revenue assumed large unrealized losses at the end of 2008. Fewer losses, and some gains, were actually realized during the year as capital markets recovered faster than forecast.

$641.3 million (152.2%) over prior year

The primary contributor to the increase from 2008 was the recovery in equity markets and returns in the bond market in 2009.

INVESTMENTS

Investment returns played a key role in WCB's 2009 financial results. The following discussion provides an overview of the economic and market forces that had a direct impact on WCB's investment portfolio and returns.

Capital markets overview

The financial crisis began in 2007 and carried on through 2008, then into 2009. In March, spurred by unprecedented actions by governments and central banks, the credit markets began to open up, and the equity market began to price in an eventual economic recovery.

From the lows reached in mid-March, equity and credit markets rose steadily through the rest of the year with Canadian and U.S. equities rising 55% and 65% respectively. Emerging markets led the way rising 104% from mid-March.

Real estate was under pressure in Canada as the economic slowdown resulted in increased vacancy and lower lease rates. The commercial real estate market in Canada has fared much better than in the U.S. or Europe due to stable ownership, mostly institutional investors, and more disciplined expansion over the last economic cycle. There was some modest impact on valuations and some attractive opportunities for adding quality properties to portfolios.

Commodity prices fell sharply in the financial crisis, but like equities and credit, prices moved up through the last nine months of the year. Demand increased as emerging economies, particularly China, recovered faster.

The bond market provided returns in line with expectations. The Canadian DEX Universe Bond Index was up 5.4% for the year. This return, however, masks the huge divergence in returns between government bonds and non-government bonds. The Canadian federal government index returned -0.21% while the corporate index returned 16.26%. At December 31, 2009, the yield to maturity on the Canadian federal index was only 2.62%. At this level there is a very high probability of higher yields and lower prices for government bonds going forward.

For further information on WCB's investments, the *2009 Annual Investment Report* can be found online at www.wcb.ab.ca.

Portfolio performance

Market returns

The portfolio earned a nominal market rate of return of 13.8% for 2009 (0.1% above the policy benchmark) and 2.7% for the four-year period ended December 31, 2009 (0.4% below the benchmark). The primary goal of the investment portfolio is to earn a real rate of return (nominal rate less inflation) that meets or exceeds the actuarial required real rate of return. On this basis, the real rate of return for 2009 of 13.9% (nominal rate of 13.8% less inflation of -0.1%) was well above the actuarial required rate of 3.0%.

Benchmark returns

The benchmark return is composed of benchmark index returns for each asset class, weighted by the policy asset mix. Performance versus the benchmark is a relative measure of success in implementing the investment program through active management.

The *2009 Annual Investment Report* at www.wcb.ab.ca contains a detailed analysis of portfolio returns.

INVESTMENT POLICY

WCB's Investment Policy contains the goals, objectives and target asset mix for the portfolio. It also describes the permitted investments, constraints and controls for management of the portfolio. The underlying investment philosophy emphasizes minimizing volatility while maximizing returns. The desired outcome is to generate investment returns over the long term that exceed the actuarial required real rate of return (currently 3.0%) with greater certainty. The Investment Policy was amended in November 2009 with changes aligned with the philosophy stated above. The policy contains revised long-term asset mix targets with a lower allocation to equities and a higher allocation to inflation-sensitive assets.

Portfolio management

Asset mix

Asset mix is the primary driver of portfolio risk and return, with targets defined in the Investment Policy. As at December 31, 2009, the investment portfolio complied with the Investment Policy in all areas except for the allocation to real estate. The actual allocation to real estate was 6.9%, slightly below the policy minimum of 7.0%. The strong return of the portfolio raised the total value while real estate stayed stable in dollar terms; thus the percentage allocation decreased slightly.

2009 Asset Mix versus Policy Mix

Asset Class	Actual Asset Mix[1]	Policy Asset Mix	Long Term Target Mix
Cash and cash equivalents	1.6%	1.0%	3.0%
Conventional bonds and mortgages	38.4%	39.0%	35.0%
Real return bonds	7.7%	8.0%	8.0%
Real estate	6.9%	8.0%	12.0%
Canadian equity	10.4%	10.0%	10.0%
Global equity	29.2%	30.0%	20.0%
Emerging-markets equity	5.4%	4.0%	5.0%
Infrastructure	0.4%	0.0%	7.0%
	100.0%	100.0%	100.0%

[1] *Asset mix percentages reflect the effects of derivative contracts utilized to adjust the portfolio asset mix. Derivatives are used as a portfolio management tool to achieve desired exposures without actually holding cash market securities directly.*

Use of derivatives

WCB's investment portfolio includes derivatives that are used to manage asset exposures. Derivative contracts are undertaken to provide market exposure, to replicate permitted investments, or as part of a hedging strategy to reduce portfolio risk. They are used only within stringent guidelines and controls, and not for speculative reasons. Derivative positions are monitored for compliance with the Investment Policy. Compliance is reported to senior management and WCB's Finance Committee on a quarterly basis.

The investment portfolio includes passive currency hedges to mitigate foreign-currency exposure. Fifty per cent (+/- 25%) of the foreign-currency exposure assumed through the global-equity asset class is hedged back to Canadian dollars, while 100% of the global-fixed-income mandate is hedged. Hedging transactions are executed through an external overlay manager independent of the underlying foreign-equity managers, and the performance impact is clearly separated and monitored.

CLAIM BENEFIT LIABILITIES

At the end of each fiscal year, WCB determines its claim benefit liabilities for all injuries that have taken place up to that date. These liabilities represent the actuarial present value of all future benefit and related administration costs, excluding costs attributable to self-insured employers. As at December 31, 2009, claim benefit liabilities aggregated to $4,907.0 million, an increase of $1.3 million over 2008.

Significant changes in liabilities

The overall $1.3 million increase in the liability is attributable to the following:

($ millions)		
Provision for future costs of current-year injuries	$	520.3
Interest requirement on the liability		257.9
Benefit payments for prior years' injuries		(485.3)
Policy changes		0.7
Changes in actuarial methods and assumptions		(97.4)
Claims experience gains		(194.9)
	$	1.3

Actuarial methods and assumptions

One policy change affected the liability for 2009. This policy change increased travel and accommodation allowances. The change produced an increase of $0.7 million to the liability.

The following changes in the actuarial methods and assumptions decreased the liability by $97.4 million:

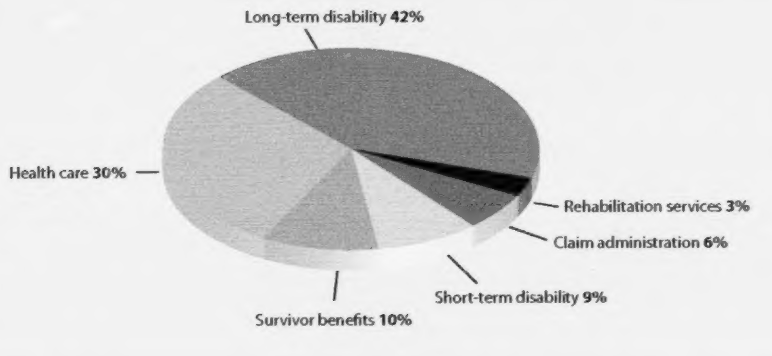
- Health care inflation and utilization rate from 6.75% to 6.00% ($134.4 million decrease)
- Health care benefit adjustments ($60.3 million increase)
- New incidence rates for outstanding economic loss payments ($59.5 million decrease)
- Updates to other benefit category assumptions ($36.2 million increase)

Impact of claims experience

Differences between actual experience and what was expected in the prior valuation result in experience losses (which increase the liability) or gains (which decrease the liability). The impact of actual claims experience resulted in an overall gain of $194.9 million that includes the following areas:

($ millions)		
Actual cost-of-living and inflation different than expected	$	82.0
Actual claim costs lower than expected		86.3
Other experience gains		26.6
	$	194.9

Claim Benefit Liabilities, December 31, 2009



Sensitivity of actuarial assumptions

Claim benefit liabilities are estimated primarily using actuarial assumptions for the real discount rate, the claim incidence rate, the cost escalation rate and benefits duration. Because of the large values involved, the liability estimates are highly sensitive to even small changes in these actuarial assumptions.

Details of the changes in claim benefit liabilities during 2009, as well as further discussion of the sensitivity of actuarial assumptions, can be found in Note 11, Claim Benefit Liabilities, in the accompanying financial statements and notes.

FUNDING POLICY

The Funding Policy is the primary instrument through which WCB manages its capital or fund structure, and provides direction for setting premium rates and optimum funding level. The Funding Policy can evolve—through rigorous management review, stakeholder consultation and Board of Director approval—to address changing economic and financial circumstances. The vision is to maintain a Funding Policy, supported by comprehensive asset-liability analysis, which responds dynamically to changing economic conditions. Details of the Funding Policy may be found under WCB Information in the Policy and Legislation section of WCB's website at www.wcb.ab.ca.

Funding principles and objectives

The strategic aim of funding and investment policies is to strive for balance between financial risk (i.e., volatility), investment returns and funding stability. Specifically, the Funding Policy embodies these financial objectives:

- Minimize the risk of becoming unfunded.
- Minimize cost volatility to employers.
- Charge premiums that reflect the cost of current-year claims.

The funding mechanisms that evolve from these objectives address those risks that may affect the financial stability of WCB—primarily investment volatility. Funding Policy rules are in place to minimize these risks, with ongoing monitoring and evaluation to ensure that they continue to respond effectively to changing economic conditions.

Funding rules

The rules guiding financial decisions under the Funding Policy include the following:

- premium-rate design based on current-year fully funded claim costs (i.e., full cost recovery with no rate subsidization or smoothing)
- minimum premium cost to employers set at 60% of industry-rated premiums
- multiple target ranges to guide funding decisions and accommodate volatility
- surplus distribution dividend or fund replenishment levy used as funding adjustment mechanisms

These rules help achieve equity and consistency in the attribution of costs among employers and ensure intergenerational equity by requiring current employers to cover the cost of current-year injuries.

Funding allocations

The Accident Fund represents all WCB assets available to discharge its legislative mandate. The allocation of assets to each of WCB's fiduciary obligations is expressed as a percentage of total liabilities as at the reporting date:

- Fully funded status is achieved when assets are sufficient for payment of all current and future compensation and related administration costs (target level: 100%).
- Assets are retained in the Fund Balance to lessen the risk of becoming unfunded and in the Occupational Disease Reserve (ODR) to provide for significant unforeseen costs related to latent occupational injury or disease.

The Accident Fund is considered fully funded when it is within the Funded Ratio target range of 114% to 128%. Surplus assets exceeding the 128% funding level are available for distribution to employers as a special dividend, whereas replenishment levies would be required if assets fall below 114%.

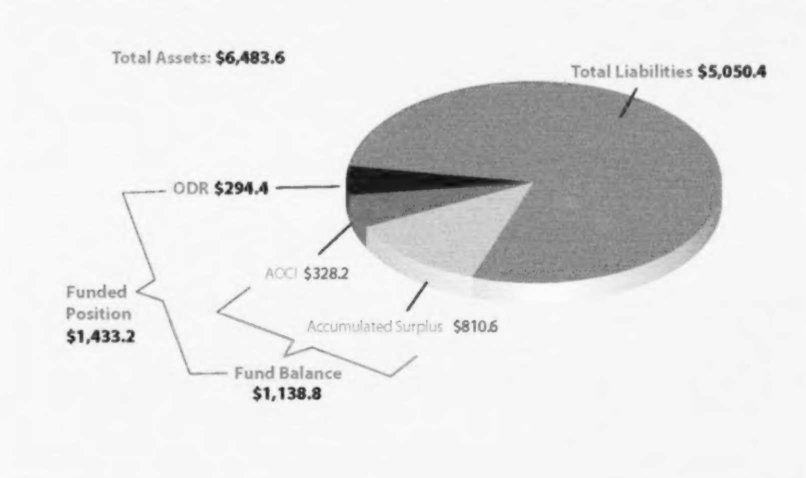
Funded Position

The table presents the major changes in Funded Position and the ending balance as at December 31, 2009:

($ millions)	Opening	2009 Change	Ending
Accumulated operating surplus for the year	$ 503.9	$ 306.8	$ 810.7
Occupational Disease Reserve maintenance funding	-	(0.1)	(0.1)
Accumulated operating surplus	503.9	306.7	810.6
Net unrealized (losses) gains on investments	(207.9)	536.1	328.2
Fund Balance	296.0	842.8	1,138.8
Occupational Disease Reserve	294.3	0.1	294.4
Funded Position	$ 590.3	$ 842.9	$ 1,433.2

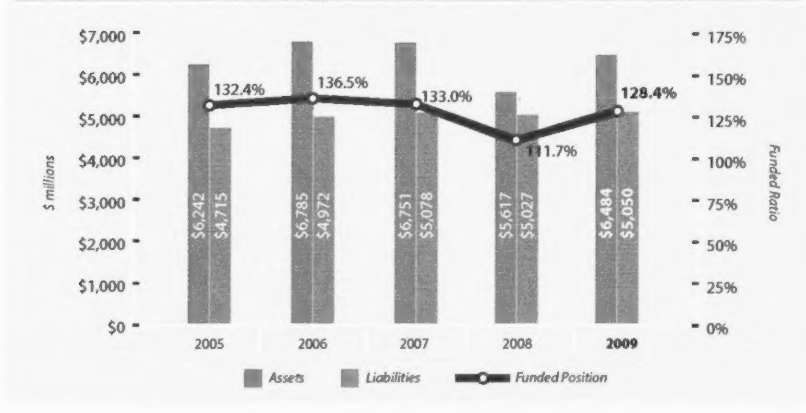
As at December 31, 2009, the Funded Ratio (total assets to total liabilities) was 128.4%, compared to 111.7% at the end of 2008. Viewed from another perspective, WCB has total assets of $6.5 billion to cover its total estimated liabilities of $5.1 billion. This increase in Funded Ratio is the result of positive investment returns in 2009. WCB's Funded Position remains positive and is slightly above the target level recommended in the Funding Policy.

Allocation of Fund Assets, December 31, 2009 ($ millions)



The chart below presents the Funded Position from 2005 through 2009.

Funded Position, 2005–2009



Risk Management

OVERSIGHT

Under WCB's corporate governance structure, the Board of Directors is responsible for overall risk management. The executive team, which has a mandate to identify and manage enterprise-level risk, is assisted by the Risk Management Committee, composed of a group of senior managers with responsibility for risk identification, assessment and mitigation at the operating level.

RISK ASSESSMENT

WCB has three primary processes for managing risk in the corporation. First, risk management is embedded as an inherent function of day-to-day business. Projects or changes to business processes must go through a documented risk analysis to assess risk and identify mitigation plans and controls to lessen the likelihood or impact of these risks. The second process is to complete a systematic and comprehensive risk assessment of emerging corporate risks as they develop throughout the year. Finally, WCB also completes an annual corporate risk assessment that engages departmental management teams and senior managers to develop a comprehensive organizational risk register. The executive team prioritizes those risks with the highest potential residual impact to WCB and selects a number for comprehensive risk assessment and mitigation.

SIGNIFICANT RISKS

WCB has identified the following risk exposures that could have significant impact on the organization and its operations.

Benefit cost risk

Many of WCB's claim related benefits are subject to external factors that have potentially significant impacts on the amount and duration of related benefit costs. These risks and uncertainties are driven largely by economic conditions, such as health care inflation and utilization, and wage growth; however, other factors may arise through administrative precedents established through the appeals process, legislative changes, or from new medical findings for occupational disease, among others. All these factors add significant uncertainty to WCB's cost structure and may impose, over time, significant pressures on the funding model.

Fraud-related risk

Every year, WCB collects approximately one billion dollars in premium revenue and distributes or reserves a similar amount for claim benefits and administrative costs. The magnitude of these costs and the number of individuals and companies involved in these processes—approximately 137,000 employers, 200,000 claimants and thousands of service providers—creates inherent risk for fraud. WCB employs an extensive audit program used to monitor the organization's ability to protect against fraud and implements additional controls, as required, to strengthen WCB's management of fraud risk.

Funding risk

Managing the components of WCB's overall Funded Position (Fund Balance and ODR) is a complex process that involves forecasting, liability projection, investment management and operational performance. Although these processes are within management's influence or control, many of the assumptions used in forecasting involve significant uncertainty regarding the future. Asset-liability management is being enhanced to provide better systems, tools, processes and information to enhance forecasting, financial-planning and decision-making processes within WCB.

Investment risk

In its investment portfolio, WCB is exposed to financial risk, which includes market and credit risk, among others. Market risk is the risk that the fair value of investments and/or associated cash flows may change because of changing general economic conditions or factors specific to individual securities. Credit risk is the potential of a debt issuer or counterparty in a financial contract to default on its obligation to WCB. Details of financial risks related to investments are discussed in Note 7, Investment Risk Management, in the accompanying financial statements and notes.

Premium risk

WCB has exposure to premium risk, which is the risk that premiums set for the coming fiscal period will not be sufficient to cover the operating costs in that year. These risks and uncertainties are largely driven by provincial economic conditions, such as employment growth and wage escalation. To manage premium-pricing risk, WCB has instituted a comprehensive forecasting program that leverages widely accepted economic-forecasting sources, such as the Conference Board of Canada.

Technology risk

To support its core business processes, WCB uses a number of information systems for processing transactions and maintaining claimant and employer information. If these systems were to fail or be compromised, significant disruption to business processes and customer service could result. To mitigate technology risk, WCB maintains a business continuity plan, system controls and backup systems to prevent processing failures and provides extensive training to develop internal system expertise.

Implications of Accounting Policies and Estimates

The adoption of accounting policies in accordance with Canadian generally accepted accounting principles (GAAP) requires that management make judgments, assumptions and estimates that could significantly affect the results of operations and WCB's financial condition. The following discusses those significant accounting policies that entail significant use of judgments and estimates that may have a material effect on current and future financial statements.

Premiums

In advance of the fiscal year, and based on Funding Policy and projections in the Three-Year Plan, WCB estimates the total premium amount necessary to cover estimated claims costs, transfer levies, administration expenses and funding requirements. Because premium rates are set well in advance of revenue being realized, they reflect macroeconomic and business assumptions that will likely change before and during the fiscal period. Consequently, the premiums collected may be more or less than sufficient to cover estimated funding requirements, and the difference could be significant under dynamic business conditions.

Investments

Investment assets are financial instruments designated as available-for-sale securities, whose primary purpose is to maintain capital and generate investment income over the long term. Because WCB accounts for investments at fair value, which reflects realizable market value, this accounting policy could lead to significant volatility in the balance sheet in turbulent capital markets. Any funding ratios based on asset values would therefore be volatile as well. Details of the investment assets can be found in Note 6, Investments, in the accompanying financial statements and notes.

Derivatives

The fair value of a derivative contract is its change in value with respect to the change in the underlying security or reference index to which the contract is linked. Gains and losses on both outstanding and closed derivative contracts are recognized in income in the periods in which they arose. Since the fair value of a derivative is exposed to market changes, the underlying derivative positions could be volatile as well.

Asset capitalization and amortization

The acquisition or development costs of long-lived assets are amortized over their useful lives. Selection of applicable costs to capitalize and an estimate of the useful life of an asset both require application of professional judgment within the context of corporate policy and industry practice. Furthermore, future periods will be affected by the estimate of useful life and choice of amortization pattern, which determine the timing and amount of expense recognized in each of those future periods.

Asset impairment

Accounting standards prescribe a test for impairment, at least annually, whenever there is objective evidence that the current carrying value of an asset may not be recoverable. Although the standards provide broad guidance on when and how impairment losses should be recognized and measured, the interpretation and assessment of impairment remains a matter of professional judgment. For investment assets, management judgment comes into play in assessing the extent and severity of the decline, the risk profile and prospects of the issuer, and WCB's ability and intent to hold a particular security until anticipated recovery.

Impairment testing of non-financial assets such as property, plant and equipment and intangible assets also involves judgment in establishing the test parameters and evaluating the available evidence to support a finding of impairment. Considering market or other demand factors, future business objectives affecting expected utilization of the asset, and other relevant and objective evidence, management concludes on the likelihood of recoverability over the remaining useful life.

Valuation of claim benefit liabilities

WCB has significant obligations extending well into the future for compensation benefits to injured workers. WCB applies the actuarial present-value methodology for its claim benefit liabilities. The actuarial process projects benefit cost streams into the future and discounts them to present value using a discount rate linked to the return on investment assets funding those liabilities. Measurement uncertainty is high because assumptions regarding the amount, timing and duration of the benefit commitments and future return on assets are difficult to predict accurately and are influenced by external factors outside management's control. Consequently, the selection of one assumption over another in estimating claim benefit liabilities could have a material impact on the liability valuation.

Governance and Compliance

Legislative authority

Under the authority of the *Workers' Compensation Act*, WCB is a provincial board-governed organization that operates independently while reporting to the Alberta Minister of Employment and Immigration (the Minister).

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (ICOFR) to provide reasonable assurance regarding the reliability of the entity's financial reporting and the preparation of its financial statements in accordance with generally accepted accounting principles. WCB has developed a framework and plan for the overall ICOFR program, which is anticipated to require several years to complete. The framework is based on best practices under the COSO[iii] and COBIT[iv] frameworks. The ICOFR program is assisted by WCB's Management Audit Services group and is co-ordinated with the Office of the Auditor General with respect to integration with the annual financial audit.

[iii] *Committee of Sponsoring Organizations of the Treadway Commission, which developed a governance framework for internal control.*

[iv] *Control Objectives for Information and Related Technology, a collection of best practices for IT governance, control and assurance.*

In 2009, the ICOFR program progressed further, with completion of the premium revenue control assessment. In addition, the annual update of the information technology and general entity level controls was completed. The annual updates of previous control assessments were also completed. These control assessments include Investments, Financial Reporting Close and the Claim Benefit Liability projects.

Accountability Framework reporting

Through consultation with the Minister and stakeholders, the Accountability Framework was approved in 2002 to provide Albertans with a set of supplementary performance measures that compare actual WCB results to established standards and/or industry benchmarks. These measures cover such areas of WCB operations as communications with stakeholders; client satisfaction; consistency, clarity and fairness of claim decisions; timeliness and effectiveness of WCB services; and financial capability and effectiveness of injury prevention programs. The Auditor General reviews the reported measures for completeness, comparability and clarity. The *2009 Accountability Framework: Supplementary Measures Report* can be viewed at www.wcb.ab.ca.

Business planning

An important aspect of the financial planning and budgeting is its linkage to WCB's strategic plan and the resulting corporate objectives developed each year in support of the strategic plan. These objectives and the related performance indicators set the direction for the organization and identify the significant areas of focus for the coming year. The *2010 Budget and 2010–2012 Financial Plan* establishes the foundation for appropriate resource allocation for achieving the corporate objectives. A copy of the plan can be viewed at www.wcb.ab.ca.

Emerging Issues

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, publicly accountable enterprises in Canada must prepare their financial statements in accordance with International Financial Reporting Standards (IFRS). As a government business enterprise, WCB falls within the scope of entities required to adopt IFRS. To prepare for this transition, WCB established a convergence program, launched several supporting projects to address the more significant accounting and business processes, and engaged an independent external advisor to validate the deliverables. Major changes to accounting policies, processes and systems were completed during 2009 in order to begin compiling comparative IFRS results on January 1, 2010.

The table on the following page presents the key IFRS program phases and activities along with their status.

IFRS Convergence Plan
Assessment as at December 31, 2009

CHANGE MANAGEMENT ACTIVITIES

COMMUNICATION, EDUCATION AND PROCESS CHANGE

Conversion Activities	Milestone	Target	Status
Planning			
High-level planning and diagnostic	Develop overall implementation strategy and plan	2007–2008	Completed Q2 2008
Analysis and design			
Detailed GAAP diagnostic and analysis	Identify and assess detailed accounting and business impacts of IFRS	Q4 2008	Completed Q4 2008
IFRS policy development	Produce IFRS accounting interpretations and draft accounting policies	Q4 2009	Completed Q3 2009
Financial reporting changes	Design and build internal and external financial reporting components	Q4 2010	In progress
Information technology	Ensure that financial information gathering, processing, and reporting systems and processes are IFRS-compliant	2009–2010	In progress
Implementation			
Conversion	Capture comparative financial reporting data	Q2 2010	In progress
	Test and validate IFRS statement presentation, as well as data capture and preparation processes	Q2 2010	In progress
Integration			
Final implementation	Embed IFRS changes throughout systems and processes, including disclosure controls	Q4 2011	Not started
Sustainment			
Sustainment	Develop a compliance process for ongoing monitoring and implementation of IFRS changes and other emerging issues	2010–2011	Not started

As at December 31, 2009, the IFRS convergence plan is progressing well during the advanced stages of implementation, having completed the planning and diagnostic phases. All known significant accounting policies have been drafted, while some policy development remains contingent on anticipated changes to certain standards likely to become effective during or after the transition period.

Although the initial evaluation has confirmed that the adoption of IFRS will likely have some impacts on systems and processes related to property, plant and equipment, investments, employee benefits and insurance contracts, the impacts on financial results are not yet fully determinable.

The table below presents the key IFRS policy elections as at the reporting date along with their expected impacts.

Policy Elections - IFRSs effective as at December 31, 2009

Significant IFRS Areas	Policy Change	Accounting Policy/Elections	Preliminary Election and Related Impact
Property, plant and equipment (PPE)	No	For opening valuation of PPE: • Fair value as deemed cost • Reconstructed historical cost	Reconstructed historical cost ***Impact:*** minimal; current policy is substantially converged with IFRS
		For post-transition accounting: • Revaluation method • Cost method	Cost method ***Impact:*** minimal; current policy is substantially converged with IFRS
Investments	Yes	Financial instruments: • Reclassify at fair value through profit and loss (FVTPL) • Maintain available for sale designation	Reclassify at FVTPL as required by early adoption of IFRS 9 ***Impact:*** significant impact to statements of comprehensive income and financial position
Leases	Yes	None available; IAS 17 prescribes a principles-based approach to classifying a lease as either finance or operating	No election ***Impact:*** minimal; more leases are expected to be classified as finance, but the capitalized amounts are not significant
Employee benefits	Yes	For first-time adoption: • Recognize all cumulative actuarial gains and losses since plan inception to the date of transition • Reconstruct recognized and unrecognized amounts of cumulative gains and losses	Recognize all cumulative actuarial gains and losses at the date of transition ***Impact:*** minimal; amounts are immaterial
		For post-transition accounting: • Recognize immediately through income • Corridor method	Recognize immediately through income ***Impact:*** minimal; amounts are immaterial
Insurance contracts	No	Optional inclusion in the first IFRS financial statements of prescribed comparative disclosures	Elect comparative disclosure exemption ***Impact:*** none; disclosure only
Financial statement presentation	Yes	Free choice of presentation, subject to prescribed requirements of IAS 1. Format used in the first IFRS financial statements becomes the standing accounting policy for subsequent statement presentation	Content and format of the statement of comprehensive income to align with the expected requirements of new IAS 1 ***Impact:*** none; disclosure only

Having completed its evaluation of the significant IFRS elections applicable to WCB's financial results, WCB has identified the exemptions that it will apply in its first IFRS financial statements; however, these are only preliminary elections, which may change with future IFRS developments. Although quantification of the related accounting impacts is progressing, WCB does not expect to complete this work until sometime in 2010.

Other Impacts Arising from IFRS Adoption

For property, plant and equipment, leases, and investments, WCB identified incremental information needs that require the development of new subsystems. Major changes to the general ledger system will not be necessary, but new reports will be sufficient to track those information requirements. The financial reporting and financial planning systems are also being updated to address IFRS reporting.

Adoption of IFRS will also affect how certain accounting estimates are recognized and measured, such as for computer software capitalization and depreciation, asset impairment, property valuations, revenue accruals, liabilities and contingent liabilities, among others. The adoption of IFRS, with its focus on principles rather than bright-line rules, will therefore introduce new financial reporting risks related to the following:

- Processes where application of management judgment is required to interpret and apply the standards
- Processes where new measurement techniques and relevant input assumptions and methods are prescribed for critical accounting estimates

Revisions to controls design will be implemented to address those risks, including development of extensive supporting documentation, not only of the reported numbers, but also of the information sources and the judgment or rationale behind key assumptions and choices.

In its project work plan, the standard setter for IFRS has a number of key accounting standards, the majority of which are slated for release in the next several years. Many of these are either new standards or major redrafting of existing standards that may have significant implications for WCB results.

Next Steps

Current priorities include completion of all conversion tasks and deliverables, including final testing of information and statement preparation systems and processes before the end of the year. By then, WCB will have confirmed its IFRS accounting policies, along with the required pro forma IFRS financial statements and reconciliations to GAAP results. WCB is confident that it will be ready for reporting under IFRS on January 1, 2011.

Looking Ahead

The challenge for WCB in the near term will be to manage the business in light of economic uncertainty and to protect the investment portfolio against volatility in turbulent markets. To achieve these goals, WCB's business priorities are to build on those operational and financial strategies that have contributed to organizational success. Management will closely monitor economic and operating trends to develop proactive and measured responses to emerging business issues.

Economic outlook

Alberta faced the full effect of a difficult recession in 2009. Of all provincial economies, Alberta has gone from the fastest-growing in 2007 to the one that experienced the largest contraction in 2009. Some economists are looking ahead to 2010 with cautious optimism of a slow, yet sustained recovery. The energy sector remains the staple of Alberta's economy. Although oil prices recovered to about US$75 a barrel in 2009, low natural gas prices will likely impact investment and drilling activity in 2010, which translates to fewer employment opportunities in many sectors of the economy. Alberta lost about 28,600 jobs in 2009; however this is a net decline produced from a reduction of 52,400 full-time jobs offset by a gain of 23,800 part-time jobs. Alberta is expected to gain about 20,000 jobs in 2010, with the majority of jobs concentrated in the construction and service industries.[v] Due to these factors, WCB is predicting only marginal growth in insurable earnings for 2010.

[v] *Conference Board of Canada (February 22, 2010). Provincial Outlook, Executive Summary. Economic Performance and Trends.*

Alberta's wage growth[vi] has slowed considerably over the past year. After posting annual wage gains of about 5% during 2006 to 2008, Alberta wages grew by just 1.3% in 2009, while the Canadian average was at 2.3%.[vii] Since wage growth was so strong prior to 2009, wage growth is expected to remain at moderate levels compared to other provinces in 2010.[viii] WCB projects that wage growth will be 2.75% in 2010.

All major global economies are expected to see only modest gross domestic product (GDP) growth in 2010. The slowdown in the consumer-driven U.S. economy will continue to have an impact on the recovery in the Canadian economy. The Conference Board of Canada is expecting growth in real GDP of 2.5% in 2010, while Alberta experienced real GDP decline of 3.7%[ix] in 2009, down from 0.6% growth in 2008.

Capital market outlook

The capital market outlook is very uncertain heading into 2010. A global economic recovery appears to be unfolding; however there are many questions about the sustainability of the recovery.

Optimists suggest that the deeper and more abrupt the recession, the more robust and strong the recovery. More pessimistic forecasters cite high unemployment, a weakness in the U.S. housing market and a need to increase taxes in the future to fund large budget deficits as signs of a more muted economic recovery than has been experienced historically.

Equity markets were very strong in 2009, and at current levels valuations are fully pricing in a recovery in corporate earnings. This suggests that returns will be much more modest in 2010 and 2011. Emerging markets are expected to be the driver of global growth as their fiscal strength and demographics are much more positive than in the developed economies.

In the longer term, the key issue for markets and for investors like WCB, which have inflation-sensitive liabilities to pay, is the probability of periods of high inflation. The stimulus amount, both monetary and fiscal, being injected into the system points to the possibility of rising inflation over the medium term. This issue is still a few years away as there is currently too much slack in labour markets (high unemployment and underemployment) and low levels of capacity utilization for inflation to be a near-term concern.

Forecasting short-term market performance is difficult at best. Studies show that investors typically cause themselves more harm than good by trying to time short-term capital market movements. WCB is a long-term investor with a strong financial position. This allows for patience and the ability to stay committed to proven investment principles and beliefs.

The total portfolio return for 2010 has been set at 5.7% for planning purposes; however, continued market volatility suggests that the actual returns for 2010 may be significantly different from the planning assumptions.

Business outlook

Customer operations

On the customer operations front, our strategic plan continues to keep us anchored on the fundamentals of our business: return to work.

From an operational level, in 2010 we continue our focus on return to work through improved shoulder injury rehabilitation methods, suitable modified work and return to work with alternate employers wherever pre-injury employers no longer have jobs available. The right modified work opportunities have helped injured workers take advantage of on-the-job rehabilitation while giving employers the chance to support and keep their valued employees.

[vi] *Measured by average weekly earnings in Alberta.*

[vii] *Statistics Canada (February 25, 2010). The Daily. Payroll, employment, earnings and hours.*

[viii] *ATB Financial (February 25, 2010). Daily Economic Comment. Alberta Wage Growth Moderates.*

[ix] *Conference Board of Canada Forecast as cited in Alberta Finance's Current Economic Indicators by Province for the week ended February 22, 2010.*

For 2010, modified-work-only claims are expected to decrease by 0.4%, and time-lost claim volume is expected to decline by 5.9% to 25,500, with the number of covered workers increasing to 1.75 million, a 1.0% increase. Average claim duration is projected to marginally increase once again to 36.3 days.

Together with our stakeholders, we continue to be successful in injury management, having reached the lowest time-lost-claim rate per 100 covered workers in our history; however, this positive trend is likely levelling off.

Financial management

Financial management is based on an investment policy that is derived from asset-liability studies which consider the year-by-year liabilities of the fund together with the probabilities of associated stock, bond and real estate returns. This results in an allocation to stocks, bonds and other assets that changes moderately from year to year and generally performs well notwithstanding some volatility from year to year.

The Investment Policy's long-term direction is toward more inflation-sensitive assets, which will lower volatility further, yet provide a level of return over the long run which will contribute to the continued financial strength of the fund.

2010 premium rate

In 2010, the average premium rate will remain the same as in 2009 at $1.32 per $100.00 of insurable earnings. This average premium rate for 2010 of $1.32 consists of $1.26 to cover the forecast costs for the year and an additional $0.06 margin for economic uncertainty. In addition, insurable earnings are forecast to grow at a slower pace in 2010 as Alberta's economy slowly recovers.

With all Workers' Compensation Boards in Canada having announced their premium rates for 2010, WCB-Alberta continues to have the lowest average rate. Alberta's premium rates have been among the lowest in Canada throughout the past decade.

Outlook for financial condition

At the end of 2009, WCB's funded ratio was 128.4% (assets over liabilities). WCB remains in a positive funded position and the current level of funding is above the target funding level in the Funding Policy, yet below the threshold to pay a special dividend in 2010. Given economic uncertainty and the volatility of investment returns, it is difficult to determine the likelihood that our funded position at year-end 2010 will be above the threshold to produce a dividend that would be paid in 2011.

Facing the future

Alberta's economy has recently weathered a strong economic change. WCB's system was challenged and emerged from the challenge in solid financial standing. In 2010 we look forward to:

- Working within a more stable economy, allowing us to focus on effective financial management strategies to manage a balanced fund to ensure that worker benefits remain secure
- Working with the employers of the province on creating new prevention and modified work opportunities to increase the focus on return to work and minimize the risk of workplace injury in the province
- Working on development and delivery of new rehabilitation models, such as our shoulder injury management program, to help workers recover from their injuries faster and allow all parties to focus on return to work more quickly and more safely

As always, we look forward to collaborating with our stakeholders and partners to leverage prevention, focus on return to work, deliver on our commitment to fairness and manage the organization to maintain financial stability. Together with our partners, we look forward to leveraging an improving economy for the benefit of the workers' compensation system.

WCB-Alberta

2009 Financial Statements

For the Year Ended December 31, 2009

Responsibility for Financial Reporting

The financial statements of the Workers' Compensation Board - Alberta were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting principles consistent with generally accepted accounting principles in Canada.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains the necessary internal controls designed to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The Board of Directors is responsible for overseeing management in the performance of financial reporting responsibilities and has approved the financial statements included in the annual report.

The Board of Directors is assisted in its responsibilities by its Audit Committee. This committee reviews and recommends approval of the financial statements and meets periodically with management, internal and external auditors, and actuaries concerning internal controls and all other matters relating to financial reporting.

Eckler Ltd. has been appointed as the independent consulting actuary to the WCB. Their role is to complete an independent actuarial valuation of the claim benefit liabilities included in the financial statements of the WCB and to report thereon in accordance with generally accepted actuarial practice.

The Office of the Auditor General, the independent auditor of the WCB, has performed an independent audit of the financial statements of the WCB in accordance with Canadian generally accepted auditing standards. The Auditor's Report outlines the scope of this independent audit and the opinion expressed.

David B. Carpenter, FCA
Chair, Board of Directors
Workers' Compensation Board - Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers' Compensation Board - Alberta

Ron J. Helmhold, CA
Chief Financial Officer
Workers' Compensation Board - Alberta

Auditor's Report

AUDITOR GENERAL *Alberta*

To the Board of Directors of the Workers' Compensation Board – Alberta

I have audited the balance sheets of the Workers' Compensation Board – Alberta as at December 31, 2009 and 2008 and the statements of operations, comprehensive income, changes in funded position, and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at December 31, 2009 and 2008 and the results of its operations, changes in funded position, and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Merwan N. Saher, CA]

Acting Auditor General
Edmonton, Alberta
April 20, 2010

Eckler
CONSULTANTS + ACTUARIES

Actuarial Statement of Opinion

on the Valuation of the Benefit Liabilities of the Workers' Compensation Board – Alberta as at December 31, 2009

I have completed the actuarial valuation of the benefit liabilities of the Workers' Compensation Board - Alberta (WCB) for the financial statements of the WCB as at December 31, 2009. In my opinion, the actuarial liabilities of $4,907.0 million make reasonable provision for future payments for short term disability, vocational rehabilitation, long term disability, survivor and health care benefits, as well as claims administration costs, on account of claims that occurred on or before December 31, 2009; it does not include a provision for future claims arising from latent occupational disease or for benefits and payments that are on a self-insured basis.

The valuation was based on the provisions of the Workers' Compensation Act of Alberta and on the WCB's policies and administrative practices in effect at the time of the valuation. The impact of the recent increase to the travel and accommodation allowances has been considered.

The data on which the valuation is based were provided by the WCB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and that the data are consistent with WCB's financial statements. The liabilities included herein have been computed by the WCB in accordance with methods and assumptions approved by me; I have made such tests of the calculations that I considered necessary.

The economic assumptions adopted for purposes of computing the liabilities are consistent with the WCB's funding and investment policies. For this valuation, a real rate of return of 3.00% was used to discount expected payments subject to inflation. Benefits subject to cost of living adjustments (COLA) were discounted at 3.50%, making implicit provision for the future indexing of benefits on the assumption that investment earnings on WCB's assets will exceed increases in the Consumer Price Index (CPI) by 3.00% per year, over the long term, and that COLA will be provided at CPI minus 0.50%. Other economic assumptions underlying the calculations are annual changes in CPI of 2.50%, as well as health care costs and vocational rehabilitation benefits assumed to grow at annual rates of 6.00% and 3.50% respectively. These rates are the same as those used in the previous valuation, except for the reduction from 6.75% to 6.00% in the health care escalation rate.

The methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WCB's claims experience, mortality and other assumptions. In addition to the reduction in the health care escalation rate, the main change made to the actuarial basis was to the assumptions used to value the economic loss payments. All the changes in methodologies and assumptions have resulted in an overall decrease of $97.4 million in liabilities.

Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at December 31, 2009, of which this statement of opinion forms part.

In my opinion, the data on which the valuation is based are sufficient and reliable, the assumptions, in aggregate, are appropriate for the purposes of the valuation, and the methods employed are consistent with sound actuarial principles. This report has been prepared and my opinion given in accordance with accepted actuarial practice.

Richard Larouche

Richard Larouche, FSA, FCIA
Actuary
Eckler Ltd.
March 12, 2010

The Workers' Compensation Board – Alberta

Balance Sheets

As at December 31

($ thousands)	Notes	2009	2008
ASSETS			
Cash and cash equivalents	4	$ 100,722	$ 95,364
Receivables	5	6,349	39,036
Investments	6, 7	6,315,424	5,423,738
Property, plant and equipment	8	34,591	30,189
Intangible assets	9	26,561	28,889
		$ 6,483,647	$ 5,617,216
LIABILITIES			
Payables and accruals	10	$ 143,454	$ 121,186
Claim benefit liabilities	11	4,907,000	4,905,700
		5,050,454	5,026,886
FUNDED POSITION	3		
Fund Balance		1,138,793	296,030
Occupational Disease Reserve		294,400	294,300
		1,433,193	590,330
		$ 6,483,647	$ 5,617,216
COMMITMENTS	21		
CONTINGENCIES AND INDEMNIFICATION	22		

Approved by the Board of Directors:

David B. Carpenter, FCA
Chair, Board of Directors
Workers' Compensation Board – Alberta

Guy R. Kerr
President & Chief Executive Officer
Workers' Compensation Board – Alberta

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board – Alberta

Statements of Operations

Year ended December 31

($ thousands)	Notes	2009 Budget	2009 Actual	2008 Actual
REVENUE				
Premium	13	$ 975,039	$ 908,456	$ 993,767
Investment	14	5,734	219,996	(421,333)
Other	15	300	1,273	1,905
		981,073	1,129,725	574,339
EXPENSES				
Claim costs	11	1,078,448	704,728	971,635
Administration	16	81,079	78,607	82,131
Injury reduction	19	38,893	39,593	34,379
		1,198,420	822,928	1,088,145
OPERATING (DEFICIT) SURPLUS		$ (217,347)	$ 306,797	$ (513,806)

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board – Alberta

Statements of Comprehensive Income

Year ended December 31

($ thousands)	Notes	2009	2008
OPERATING SURPLUS (DEFICIT)		$ 306,797	$ (513,806)
OTHER COMPREHENSIVE GAINS (LOSS)			
Net unrealized gains (losses) on available-for-sale investments arising during the year		392,662	(952,329)
Net investment losses realized during the year and reported in the statements of operations	14	112,445	236,067
Loss realized during the year from write-down of impaired investments and reported in the statements of operations	14	31,042	147,061
		536,149	(569,201)
TOTAL COMPREHENSIVE INCOME (LOSS)		$ 842,946	$ (1,083,007)

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board – Alberta

Statements of Changes in Funded Position

Year ended December 31

($ thousands)	Notes	2009	2008
FUND BALANCE			
Accumulated operating surplus			
Balance, beginning of year		$ 503,983	$ 1,007,321
Operating surplus (deficit)		306,797	(513,806)
Dividends		(83)	68
Transfer (to) from occupational disease reserve		(100)	10,400
		810,597	503,983
Accumulated other comprehensive income (loss)			
Balance, beginning of year		(207,953)	361,248
Other comprehensive income (loss)		536,149	(569,201)
	6	328,196	(207,953)
Fund Balance, end of year		1,138,793	296,030
OCCUPATIONAL DISEASE RESERVE			
Balance, beginning of year		294,300	304,700
Transfer from (to) accumulated operating surplus		100	(10,400)
		294,400	294,300
		$ 1,433,193	$ 590,330

The accompanying notes are an integral part of these financial statements.

The Workers' Compensation Board – Alberta

Statements of Cash Flows

Year ended December 31

($ thousands)	2009 Budget	2009 Actual	2008 Actual
OPERATING ACTIVITIES			
Cash inflows			
Employer premiums	$ 982,027	$ 966,564	$1,015,019
Dividend, interest and derivative income	1,210	331,223	53,010
Realized net investment gains (losses)	4,524	(112,445)	(236,067)
Other	1,143	464	1,137
Cash outflows			
Benefits to claimants and/or third parties on their behalf	(634,900)	(585,148)	(566,453)
Employee and supplier payments for administrative and other goods and services	(196,970)	(180,647)	(179,345)
Injury reduction program funding	(38,893)	(39,593)	(34,381)
Net cash from operating activities	118,141	380,418	52,920
INVESTING ACTIVITIES			
Cash outflows			
Net sale (purchase) of investments	(94,791)	(354,319)	240,121
Net purchase of property, plant and equipment	(7,083)	(7,073)	(5,067)
Net purchase of intangible assets	(11,267)	(9,712)	(8,749)
Net cash (used for) from investing activities	(113,141)	(371,104)	226,305
FUNDING POLICY ACTIVITIES			
Cash outflows			
Special dividends to employers	-	(3,956)	(344,304)
Net cash used for Funding Policy activities	-	(3,956)	(344,304)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,000	5,358	(65,079)
Cash and cash equivalents, beginning of year	56,000	95,364	160,443
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 61,000	$ 100,722	$ 95,364

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2009 with comparatives for the year ended December 31, 2008

(thousands of dollars unless stated otherwise)

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of the Workers' Compensation Board – Alberta (WCB) have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

ACCOUNTING ESTIMATES AND MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with GAAP requires the use of estimates that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods presented.

Some accounting measurements require management's best estimates, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action. Claim benefit liabilities, the reserve for occupational disease, write-downs of investments, the Partnerships in Injury Reduction (PIR) accrual, and accrued premium revenue are the most significant items that are based on accounting estimates. Actual results could differ from the estimates determined by management in these financial statements, and these differences, which may be material, could require adjustment in subsequent reporting periods.

COMPREHENSIVE INCOME

Comprehensive income includes current operating surplus and other comprehensive income (OCI). Other comprehensive income is comprised of unrealized fair-value gains and losses from investments, less previously deferred unrealized gains and losses that have been realized during the period through sale or impairment loss write-down and recognized in current income. Accumulated other comprehensive income (AOCI) includes unrealized fair-value gains and losses arising from holding available-for-sale investments. When the underlying securities are subsequently sold or written down, the resulting realized gain or loss is released from AOCI into investment income in the statements of operations.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the financial statement date. Non-monetary assets and liabilities are translated at the historical exchange rate. Foreign-currency transactions are translated into Canadian dollars using the exchange rate in effect when those transactions occur. Foreign currency gains and losses are recognized in income in the period in which they arise.

CASH AND CASH EQUIVALENTS

Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and short-term investments held by custodians are not available for general use, and accordingly are included in investments.

INVESTMENTS

Portfolio investments, which comprise securities held for long-term capital appreciation and generation of income, are reported at fair value. Fixed income investments, marketable equity securities, and real estate and infrastructure investments are classified as available-for-sale investments. Derivatives used to manage asset and risk exposures are classified as held-for-trading instruments. Investments are initially recognized at acquisition cost (including premiums or discounts at date of purchase) and subsequently measured at fair value at each reporting date. WCB utilizes trade-date accounting (date when transactions are entered into rather than when they are settled) for all purchases and sales of investments.

Valuation of financial assets

The basis of measurement for financial assets is fair value as at the reporting date as follows:

- Publicly traded securities are based on their closing market prices or the average of the latest bid/ask prices quoted by independent securities valuation companies.
- Non-publicly traded private investment in infrastructure and real estate pooled funds are valued at the net asset values of the funds, which reflect the fair values of fund assets less fund liabilities.
- The fair value of real estate funds are based on independent annual appraisals, net of any liabilities against the fund assets.
- The fair value of the commercial mortgages fund is based on the market interest rate spread over Bank of Canada bonds with a similar term to maturity.

Valuation of derivatives

Derivatives are financial contracts whose price is dependent on the price of one or more underlying securities, reference rates or indices. The fair value of WCB's derivative contracts, primarily forward foreign-exchange contracts and futures contracts, are valued based on quoted market prices.

INVESTMENT INCOME

Recognition and measurement

WCB recognizes interest revenue as earned, dividends when declared, and investment gains and losses when realized. Interest revenue is recognized over the term of a debt security using the effective interest rate method, and includes amortization of any premium or discount recognized at date of purchase. For real-return bonds, interest revenue also includes amortization, using the effective interest rate method, of adjustments to principal related to changes in inflation. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Unrealized gains and losses on available-for-sale securities are recorded in other comprehensive income.

Derivatives are classified as held-for-trading instruments and, as such, changes in fair value resulting from marking derivative contracts to market are recognized in investment income. WCB's investment portfolio contains certain derivatives that meet hedge accounting requirements. WCB does not apply hedge accounting to the hedging relationships in its segregated investments, but uses hedge accounting indirectly in some pooled fund investments.

Transaction costs are included in the acquisition cost of individual securities. Direct investment expenses such as external custodial and management fees, as well as internal investment management expenses, are netted against investment income.

Impairment of financial instruments

When the fair value of an investment falls below its cost, and the decline is determined to be other-than-temporary, a loss equivalent to the difference between cost and current fair value is recorded against investment income in the statements of operations. The assessment of other-than-temporary impairment considers the extent of the unrealized loss, the length of time that the security has been in a loss position, the financial condition of the issuer and WCB's intent to hold the security to any anticipated recovery.

PREMIUM REVENUE

Premiums are billed when employers report their insurable earnings for the current premium year. For employers who have not reported, premiums are estimated based on historical experience, and any difference between actual and estimated premiums is adjusted the following year. Premium revenue is net of the Partnerships in Injury Reduction (PIR) rebate.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives. Depreciation is calculated using the following annual rates and methods that best reflect the realization of benefits:

Buildings	*2.5% straight-line*
Leasehold improvements	*term of the leasing contract plus one renewal period*
Equipment – computer	*35% declining balance*
– furniture and other	*15% declining balance*
– vehicles	*20% straight-line*

WCB evaluates its property, plant and equipment for impairment due to obsolescence, redundancy, deterioration, loss or reduction in future service potential. WCB writes down the carrying value to fair value and records the write-down amount as depreciation expense.

INTANGIBLE ASSETS

Computer software

Software development expenditure is capitalized only if the directly related costs can be measured reliably, the product or process is technically feasible, future economic benefits are probable, and WCB has the intention and sufficient resources to complete development and to use the asset. Computer software development costs are recognized as assets and amortized using the straight-line method at an annual rate of 20% commencing from the date that the software is available for use.

WCB evaluates its computer software for impairment due to obsolescence, redundancy, loss or reduction in future service potential. WCB writes down the carrying value to fair value and records the write-down amount as amortization expense.

CLAIM BENEFIT LIABILITIES

Claim benefit liabilities represent the actuarial present value, as estimated by WCB's external actuary, of all future benefit payments and claim administration costs that have been incurred in respect of current and prior years' injuries. Claim benefit liabilities have been estimated in accordance with accepted actuarial practice established by the Canadian Institute of Actuaries.

EMPLOYEE FUTURE BENEFITS

Permanent employees of WCB participate in defined benefit pension plans sponsored by the Province of Alberta. As these multi-employer plans meet the accounting requirements for treatment as defined contribution plans, the current year employer contributions are accounted for as current pension expense.

For senior management, WCB also sponsors a supplemental retirement income plan to provide post-employment benefits in excess of statutory limits. The supplemental plan is a defined benefit plan whose costs are actuarially determined each year using the projected benefit method prorated on service. Actuarial gains and losses arising from the annual valuation are recognized in benefit plan expense as they arise.

WCB offers a contributory benefit plan that allows eligible employees who retire early to continue participating in staff benefit programs between the date of early retirement and the end of the month in which the employee turns 65. These bridge benefits include group supplementary health and dental care.

In addition to post-retirement benefits, WCB offers an income continuance plan for long-term disability to all permanent employees. The costs of providing such benefits are actuarially determined by WCB's benefit consultants. Valuation of the liability may result in a net actuarial gain or loss. The gain or loss that is greater than 10% of the benefit obligation is amortized to benefit plan expense over the estimated average expected remaining service period of employees.

2. FINANCIAL REPORTING CHANGES

ACCOUNTING POLICY CHANGES

Section 3064 Goodwill and Intangible Assets

On January 1, 2009, WCB adopted the provisions of new CICA Handbook Section 3064 *Goodwill and Intangible Assets*. The new standard contains recognition and measurement criteria for internally generated computer software and separate presentation of intangible assets on the balance sheets.

EIC-173 Credit Risk and Fair Value

On January 20, 2009, WCB adopted EIC-173 *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. This abstract clarifies how WCB's own credit risk and the credit risk of a counterparty should be taken into account in determining the fair value of financial assets and financial liabilities. The new guidance has not had a material impact in WCB's operating results or financial position.

CURRENT DISCLOSURE CHANGES

Financial instruments – disclosures

Effective December 31, 2009, WCB adopted CICA amendments to Section 3862 *Financial Instruments – Disclosures*. The additional disclosures include categorization of fair value measurements into one of three levels, ranging from fair value measurements that are determined using observable market inputs (i.e., quoted market prices in an active market), to fair value measurements that are based on inputs that are not based on observable market data (i.e., entity-specific valuation assumptions and techniques).

FUTURE ACCOUNTING POLICY CHANGES

Adoption of International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board confirmed that the changeover date for adoption of

International Financial Reporting Standards (IFRS) by publicly accountable enterprises will be January 1, 2011. Changes to processes and systems are underway in order to develop comparative IFRS financial results for 2010. The 2009 Management Discussion and Analysis provides details on WCB's plans for adoption of IFRS, together with an assessment of readiness for 2010 and 2011.

3. FUNDING BASIS

LEGISLATIVE AUTHORITY

WCB operates under the authority of the *Workers' Compensation Act* (the Act), Revised Statutes of Alberta 2000, Chapter W-15, as amended.

ACCIDENT FUND

The Act stipulates the creation of an Accident Fund (the Fund) with sufficient funds to pay present and future compensation. The Fund is fully funded, when total fund assets equal or exceed total liabilities. This Funded Position (or net assets) represents the current funding status. The Funded Position is maintained in two reserves within the Accident Fund: the Fund Balance and the Occupational Disease Reserve (ODR).

The Fund Balance consists of accumulated net operating surpluses/deficits and accumulated other comprehensive income, which holds unrealized gains and losses on investments.

The ODR was established to provide for costs arising from latent occupational injury or disease where a causal link to the workplace has not been established, but may be established in the future. No provision against income has been made for future claims arising from such injury or disease because the determination of such claims cannot be reasonably estimated. The ODR is maintained at a percentage of claim benefit liabilities through a transfer from or to the Fund Balance.

FUND MANAGEMENT

Since the Act does not provide for an ownership-based capital structure, WCB views its available capital resources as synonymous with its Funded Position. The primary objective in managing the Funded Position is to mitigate the risk of being unfunded, while a secondary objective is to minimize premium rate volatility caused by investment risk. WCB manages the financial status of the Accident Fund by monitoring the Funded Position and making funding decisions in accordance with the Funding Policy.

The Funding Policy sets a target zone of 114% to 128% for the Funded Ratio (total assets divided by total liabilities) to guide funding decisions. When the Funded Ratio falls below the target zone, special funding requirements are included in premium rates. When the Funded Ratio is above the target zone, special dividends may be paid.

($ thousands)

Accident Fund	**2009**	2008
Total Assets	$ 6,483,647	$ 5,617,216
Less:		
Total liabilities	5,050,454	5,026,886
Funded Position	$ 1,433,193	$ 590,330
Funded Ratio	128.4%	111.7%

4. CASH AND CASH EQUIVALENTS

($ thousands)	2009	2008
Cash in transit and in banks	$ 126	$ 318
Cash equivalents	100,596	95,046
	$ 100,722	$ 95,364

Cash equivalents are invested in a short-term pooled investment fund that generated an annual return of 1.2% (2008 – 3.5%).

5. RECEIVABLES

($ thousands)	2009	2008
Premium		
Assessed	$ -	$ 32,723
Accrued	-	1,477
	-	34,200
Other	6,349	4,836
	$ 6,349	$ 39,036

Accrued premiums receivable represent estimated premiums related to employers that had not reported their insurable earnings by year-end. See Note 10 for the reclassification of the 2009 premium accrual to Payables and Accruals and Note 13 for details concerning the premium accrual.

6. INVESTMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below presents the cost and carrying amount at fair value for WCB's investments as at December 31, 2009, with the change in fair value recognized through other comprehensive income:

($ thousands)

	2009					2008		
	Adjusted Cost[1]	**Unrealized Gains**	**Unrealized Losses**	**AOCI**	**Fair Value**	Adjusted Cost[1]	AOCI	Fair Value
Available-for-sale investments								
Fixed income								
Nominal bonds:								
Canada	$ 2,090,140	$ 37,035	$ (1,407)	$ 35,628	$ 2,125,768	$ 2,292,834	$ (51,158)	$ 2,241,676
Other markets	151,360	-	(1,663)	(1,663)	149,697	131,474	19,698	151,172
Mortgages[2]	188,389	-	(826)	(826)	187,563	160,712	(1,915)	158,797
	2,429,889	37,035	(3,896)	33,139	2,463,028	2,585,020	(33,375)	2,551,645
Equities								
Domestic:	624,331	52,632	(17,519)	35,113	659,444	496,894	(110,892)	386,002
Foreign:								
Global[3]	1,949,422	77,340	(72,345)	4,995	1,954,417	1,817,371	(245,866)	1,571,505
Emerging markets	178,383	80,906	-	80,906	259,289	92,850	-	92,850
	2,752,136	210,878	(89,864)	121,014	2,873,150	2,407,115	(356,758)	2,050,357
Inflation-sensitive								
Real estate[4]	385,061	61,371	(1,515)	59,856	444,917	342,780	112,172	454,952
Infrastructure[5]	28,841	-	(1,197)	(1,197)	27,644	14,576	1,753	16,329
Real-return bonds	371,441	115,384	-	115,384	486,825	381,518	68,255	449,773
	785,343	176,755	(2,712)	174,043	959,386	738,874	182,180	921,054
	5,967,368	424,668	(96,472)	328,196	6,295,564	5,731,009	(207,953)	5,523,056
Derivatives[6]								
Fixed income	-	-	-	-	4,213	-	-	(6,536)
Equities	-	-	-	-	15,647	-	-	(92,782)
	-	-	-	-	19,860	-	-	(99,318)
	$ 5,967,368	$ 424,668	$ (96,472)	$ 328,196	$ 6,315,424	$ 5,731,009	$ (207,953)	$ 5,423,738

[1] *Adjusted cost includes the following:*
a) the accumulated amortization of discount or premium on fixed income securities; and
b) the written-down value for securities assessed to have an other-than-temporary decline in value.

[2] *Mortgages include commercial mortgages and multi-unit mortgages, but do not include single-dwelling residential mortgages.*

[3] *Global comprises U.S. and Europe, Australasia and Far East mandates.*

[4] *Real estate comprises pooled funds invested in commercial properties.*

[5] *Infrastructure consists of a pooled fund invested in infrastructure assets.*

[6] *Changes in the fair value of segregated fund derivatives is recognized in investment income rather than in AOCI. See Note 7 Investment Risk Management for more details concerning derivatives.*

FAIR VALUE HIERARCHY

The fair value of WCB's investments recorded on the Balance Sheets was determined using one of the following valuation techniques:

Level 1 The fair value is based on quoted prices in active markets for identical assets or liabilities. This level includes equity securities and derivative contracts that are traded in an active exchange market.

Level 2 The fair value is based on inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs based on observable market data. Includes pooled funds invested in traded securities, as well as derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from observable market data.

Level 3 The fair value is based on unobservable inputs that are significant to the fair value of the assets or liabilities and have little or no market activity. This level includes financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category includes pooled funds invested in debt securities, private equity, real estate and infrastructure.

The table below summarizes the basis of fair value measurements for financial assets held in WCB's investment portfolio as at December 31, 2009:

($ thousands)	Valuation Technique			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Available-for-sale investments				
Fixed income				
Nominal bonds	$ -	$ 2,146,336	$ 112,892	$ 2,259,228
Mortgages		-	187,686	187,686
	-	2,146,336	300,578	2,446,914
Equities				
Domestic	422,564	235,000	-	657,564
Foreign	1,249,471	936,406	-	2,185,877
	1,672,035	1,171,406	-	2,843,441
Inflation-sensitive				
Real estate	-	-	433,617	433,617
Infrastructure	-	-	27,608	27,608
Real-return bonds	-	485,626	-	485,626
	-	485,626	461,225	946,851
	1,672,035	3,803,368	761,803	6,237,206
Derivatives	-	19,860	-	19,860
Investments[1]	$ 1,672,035	$ 3,823,228	$ 761,803	$ 6,257,066

[1] Net cash, receivables and payables of $58,358 are carried at amortized cost and therefore not subject to fair value classification. This net amount is added to the fair value total above to arrive at the total fair value of investments reported on the 2009 balance sheet.

RECONCILIATION OF LEVEL 3 FAIR VALUE MEASUREMENTS

	2009		
($ thousands)	Fixed Income	Real Estate/ Infrastructure	Total
Balance, beginning of year	$ 295,257	$ 467,917	$ 763,174
Realized income recognized in operating surplus	(10,180)	(25,625)	(35,805)
Net changes in unrealized gains/losses	14,014	(37,547)	(23,533)
Purchases of Level 3 investments	42,893	58,424	101,317
Sale or settlement of Level 3 investments	(41,406)	(1,944)	(43,350)
Balance, end of year	**$ 300,578**	**$ 461,225**	**$ 761,803**

7. INVESTMENT RISK MANAGEMENT

INVESTMENT GOVERNANCE

The Board of Directors is ultimately responsible for overall governance and strategic direction of the investment portfolio through its review and approval of the Investment Policy and ongoing monitoring of investment performance and compliance.

WCB management is responsible for monitoring investment performance, recommending changes to the Investment Policy and selecting fund managers. WCB retains independent consultants to benchmark the performance of its fund managers, and to advise on the appropriateness and effectiveness of its Investment Policy and practices.

KEY FINANCIAL RISKS

The primary financial risk for WCB is the risk that, in the long term, returns from its investments will not be sufficient to discharge all obligations arising from its claim liabilities. Risk management for investments needs to be closely aligned with the risk management of liabilities to best manage this funding risk.

WCB's primary risk mitigation strategy is the implementation of its Investment Policy. As determined through an asset/liability study, the Investment Policy target asset mix, and associated risk and return characteristics, have been established to provide guidelines for a broad investment strategy, as well as specific approaches to portfolio management. The Investment Policy also calls for maintaining a well-diversified portfolio, both across and within asset classes, and engaging fund managers who represent a broad range of investment philosophies and styles, all within a rigorous compliance framework.

WCB has identified key investment risks that directly affect the sufficiency of its investments to fund current and future claim obligations:

Market risks – These risks include movements in equity market prices, interest rates, credit spreads and foreign currency exchange rates.

Other investment risks – These risks relate to the specific composition and management of WCB's portfolio and include liquidity risk, securities lending risk, counterparty default risk and derivatives risk.

The following sections describe these risk drivers, and WCB's exposure and mitigation strategies for each risk.

Equity market risk

WCB is exposed to equity market risk, which is the risk that the fair value of its investments in publicly traded shares will fluctuate because of price changes. Such price changes are caused by macroeconomic factors and other capital market dynamics, which may affect the market value of individual securities.

WCB's mitigation strategy for equity market risk is disciplined oversight of investment activities within a formal investment control framework that has been reviewed and validated by independent experts to ensure continuous compliance with approved policies and practices. The target asset mix, as outlined in the Investment Policy, is the primary method for controlling the exposure to equity market risk.

The table below presents the effect on WCB's equity mandates of a significant adverse change[i] in the key risk variable—the portfolio weighted average (asset class) benchmark:

($ thousands)	**2009**		2008	
Equities	**1 std dev**	**2 std devs**	1 std dev	2 std devs
% change in Canadian market benchmark	(16.9%)	(33.7%)	(15.1%)	(30.1%)
Canadian mandate	$ (95,166)	$ (166,328)	$ (50,494)	$ (89,306)
% change in Global market benchmark	(12.9%)	(25.8%)	(11.3%)	(22.5%)
Global mandate	$ (225,054)	$ (403,961)	$ (149,653)	$ (271,799)
% change in Emerging market benchmark	(21.5%)	(42.9%)	(20.2%)	(40.5%)
Emerging markets mandate	$ (45,814)	$ (77,869)	$ (15,629)	$ (26,755)

Interest rate risk

Interest rate risk is the risk that the value of a financial security will fluctuate due to changes in market interest rates.

The table below presents the effects of a nominal interest rate change of 50 and 100 bps[ii] on the respective bond portfolios:

($ thousands)	**2009**		2008	
change in nominal interest rate	+50 bp	+100 bp	+50 bp	+100 bp
Nominal bonds	$ (66,266)	$ (132,533)	$ (70,543)	$ (141,087)
change in nominal interest rate	+50 bp	+100 bp	+50 bp	+100 bp
Real return bonds	$ (36,903)	$ (73,806)	$ (33,914)	$ (67,828)

[i] *A change is considered to be material when it exceeds the standard deviation (std dev), which measures the variance in a normal probability distribution. One std dev covers 68% of all probable outcomes; two std devs, 95%. The benchmark deviations are based on 2009 performance data.*

[ii] *One basis point (bp) equals 1/100 of 1%; 50 bps = 50/100 of 1% or 0.5%.*

The table below presents the remaining terms to maturity at fair value, with the average effective yields for each maturity, for fixed income investments exposed to interest rate risk as at December 31, 2009:

($ thousands)	Remaining term to maturity					
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	**2009**	2008
Nominal[1] bonds						
Canadian – externally managed	$ 55,069	$ 429,935	$ 409,622	$ 444,022	$ 1,338,648	$ 1,546,315
Average effective yields	4.5%	4.0%	5.2%	6.0%	5.0%	5.9%
Other markets	18,021	51,634	66,789	17,607	154,051	144,727
Average effective yields	0.9%	2.0%	3.7%	4.3%	3.4%	4.6%
Canadian – internally managed	45,098	298,235	161,927	282,064	787,324	695,382
Average effective yields	0.9%	2.4%	4.2%	4.7%	3.4%	3.9%
	118,188	779,804	638,338	743,693	2,280,023	2,386,424
Real[1] return bonds						
Canadian – internally managed	1,223	-	-	485,626	486,849	449,790
Average effective yields	0.4%	-	-	1.5%	1.5%	2.2%
	1,223	-	-	485,626	486,849	449,790
	$119,411	$ 779,804	$ 638,338	$ 1,229,319	$ 2,766,872	$ 2,836,214

[1] *Nominal yield reflects the total yield to maturity, whereas real yields are net of inflation.*

Fixed income pricing risk

Fixed income pricing risk related to financial securities arises from changes in general financial market or economic conditions that may change the pricing of the entire non-government bond market, specific sectors or individual issuers. This risk is generally manifested through changes in the security's credit spread.

WCB's investment portfolio is exposed to fixed income pricing risk mainly through participation in direct holdings of fixed income securities and to a lesser degree investments in a nominal Canadian bond pool, a global fixed income mandate and a Canadian mortgage pool.

The table below presents the effects of a change in the credit spreads of 50 and 100 bps on the non-government portion of the bond portfolio:

($ thousands)	**2009**		2008	
change in nominal interest rate	+50 bp	+100 bp	+50 bp	+100 bp
Nominal bonds[1]	$ (14,736)	$ (29,471)	$ (6,906)	$ (13,812)

[1] *Segregated funds only. The real return bond portfolio includes only government issues.*

Foreign currency risk

Currency risk is the risk that the value of financial assets and liabilities denominated in foreign currencies will fluctuate due to changes in their respective exchange rates.

In its Canadian fixed income pooled investments, WCB is exposed to foreign currency volatility that is managed through forward foreign-exchange contracts and cross-currency interest rate swaps. The global fixed income segregated fund is fully hedged to the Canadian dollar by utilizing forward currency contracts. For its foreign-equity investments, WCB utilizes a currency overlay to hedge 50% of the aggregate currency exposure from foreign equities. The currency overlay is executed through forward foreign-exchange contracts on the U.S. dollar, euro and other major currencies. As the Canadian dollar moves against hedged foreign currencies, the resulting appreciation or depreciation on foreign investments in the balance sheet is reflected in the statement of operations as a 50% offsetting gain or loss.

WCB's largest currency exposure is to the U.S. dollar, with unhedged holdings of $542,089 (2008 – $432,501); euro exposure is next, with unhedged holdings of $106,155 (2008 – $76,834). For the year ended December 31, 2009, the net gain from the currency overlay was $105,347 (2008 – $179,883 loss).

The table below presents the effects on the foreign equity mandate of a material change in the Canadian/U.S. dollar and Canadian/euro exchange rates:

($ thousands)	**2009**		2008	
	CAD/USD	**CAD/EURO**	CAD/USD	CAD/EURO
December 31 spot rate	*0.9539*	*0.6648*	*0.8100*	*0.5827*
10% appreciation in the Canadian dollar	*1.0493*	*0.7313*	*0.8910*	*0.6410*
Global mandate	**$ (49,282)**	**$ (9,650)**	$ (39,318)	$ (6,985)

Liquidity risk

Liquidity risk stems from the lack of marketability of a security that cannot be bought or sold quickly enough to prevent or minimize a loss. Lack of liquidity in the market acts as a constraint against optimum portfolio management decisions. Because WCB's operating cash flows are generally sufficient to fund ongoing obligations, market illiquidity is not a critical concern but, from time to time, it may hinder the efficient management of portfolio activities such as rebalancing the asset mix, reallocating assets between fund managers and funding major commitments.

Through a proactive cash management process that entails continuous forecasting of expected cash flows, WCB mitigates liquidity risk by minimizing the need for liquidations of portfolio assets in volatile markets. To cover unanticipated cash requirements when market conditions are unfavourable, WCB has negotiated a standby line of credit of up to $20 million, which has not been drawn down as at December 31, 2009. Given its stable operating cash flows, active cash management and credit facilities in place, WCB does not believe it has significant liquidity risk.

Securities-lending risk

To generate additional income, WCB participates in a securities-lending program sponsored by its custodian. Under this program, the custodian may lend WCB's investments to eligible third parties for short periods. These loans are secured against loss with marketable securities having a minimum fair value of 102% of the loan. The custodian is contractually obligated to indemnify WCB for any losses resulting from inadequate security. For 2009, securities-lending transactions generated income of $679 (2008 – $1,362). WCB is also exposed to securities-lending risk through participation in certain pooled funds.

Counterparty default risk

Counterparty default risk arises from the possibility that the issuer of a debt security, or the counterparty to a derivatives contract, fails to discharge its contractual obligation to WCB.

To mitigate counterparty default risk, WCB ensures that the credit ratings of counterparties do not fall below an acceptable threshold. Issuers of debt securities will have at least a B- or equivalent score from a recognized credit-rating agency, or must meet other stringent investment criteria. Counterparties for derivative contracts will have at least an A- score or equivalent from a recognized credit-rating agency.

As at December 31, 2009, the aggregate amount of fixed income securities with counterparty ratings below BBB- is presented in the table below:

($ thousands)	**2009**	2008
Corporate bonds		
Segregated funds	$ 34,290	$ 1,824
Pooled funds	6,084	3,092
	$ 40,374	$ 4,916

WCB's Investment Policy also imposes stringent restrictions with respect to material concentration in any single asset class, sector, fund and counterparty. Each fund is closely monitored for compliance to ensure that aggregate exposures do not exceed those investment constraints.

Derivatives risk

Although derivatives represent an important component of WCB's risk management strategy, the portfolio does not contain any derivatives intended for speculative or trading purposes. An example of derivatives used for risk mitigation is the currency overlay described in the currency risk section, which is a partial hedge of the currency exposure. From time to time, derivatives are also utilized as a portfolio management technique to replicate a target asset mix or achieve certain asset exposures when it is not possible or cost-effective to hold securities directly.

The notional value of a derivative contract used in a hedging arrangement represents the exposure that is being hedged, and is the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional amounts are not indicative of the credit risk associated with such derivative contracts and are not recognized in these financial statements. WCB's credit exposure is represented by the replacement cost of all outstanding contracts in a receivable (positive fair value) position. Counterparty default risk with respect to derivative contracts is mitigated in accordance with investment guidelines described in the earlier section on counterparty default risk.

The table below presents the notional principal, as well as the fair value, of all open derivative contract positions in segregated funds as at December 31, 2009:

($ thousands)		Term	2009		2008	
	Asset Mandates	Within 1 year	**Notional Principal**	**Fair Value**	Notional Principal	Fair Value
Asset replication contracts						
Equity index futures contracts	Global equities	100%	$ -	$ -	$ 186,763	$ 7,108
Bond futures contracts	Global fixed income	100%	69,972	590	286,202	(12,462)
			69,972	590	472,965	(5,354)
Foreign-exchange contracts						
Currency overlay forward contracts	Global equities	100%	960,903	16,452	1,038,985	(98,680)
Forward foreign-exchange contracts	Global equities/fixed income	100%	458,805	2,818	487,201	4,716
			1,419,708	19,270	1,526,186	(93,964)
			$ 1,489,680	$ 19,860	$ 1,999,151	$ (99,318)

WCB also has indirect exposure to derivatives risk through its Canadian fixed income pooled investments with the Government of Alberta. These investments are primarily exposed to interest rate risk, foreign currency risk, and bond pricing risk that are managed through several types of derivative contracts having aggregate notional amounts of $1,097,542 (2008 – $2,414,726), fair value of $2,618 [2008 – ($39,105)]. Their weighted average maturities are: less than 1 year – 38%, 1 to 3 years – 33% and greater than 3 years – 29%.

8. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	2009					2008
	Cost	**Work In Progress**	**Total**	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Land	$ 1,092	$ -	$ 1,092	$ -	$ 1,092	$ 1,092
Buildings	38,167	94	38,261	15,966	22,295	23,131
Leasehold improvements	1,556	-	1,556	798	758	-
Equipment	16,449	1,707	18,156	7,710	10,446	5,966
	$ 57,264	$ 1,801	$ 59,065	$ 24,474	$ 34,591	$ 30,189

9. INTANGIBLE ASSETS

($ thousands)	2009					2008
	Cost	**Work In Progress**	**Total**	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Computer software	$ 109,224	$ 6,747	$ 115,971	$ 89,410	$ 26,561	$ 28,889

10. PAYABLES AND ACCRUALS

($ thousands)	2009	2008
Partnerships in Injury Reduction rebates	$ 71,446	$ 71,776
Accrued employee benefits	28,655	25,724
Net premium revenue adjustments	24,238	-
Other	19,115	23,686
	$ 143,454	$ 121,186

Partnerships in Injury Reduction rebates (Note 13) are paid to those employers that have met the eligibility requirements. Net premium revenue adjustments represents amounts collected from employers in excess of adjusted premiums related to yet to be reported insurable earnings adjustments.

11. CLAIM BENEFIT LIABILITIES

Claim benefit liabilities have been independently valued as at December 31, 2009 by WCB's external actuary. Claim benefit liabilities include a provision for all benefits provided by current legislation, WCB policies and administrative practices. These liabilities also include a provision for the future expenses of administering those benefits, including funding obligations to the Appeals Commission and Medical Panel Office. No provision has been made for claims related to known latent occupational diseases where the claim has not yet been reported and the year of disablement would be in a subsequent period. Claim benefit liabilities also do not include a provision for benefit costs of self-insured employers.

Since the claim benefit liabilities of WCB are of a long-term nature, the actuarial assumptions and methods used to calculate the reported claim benefit liabilities are based on considerations of future expenditures over the long term. As the determination of these liabilities requires assumptions about economic and other events that may occur many years in the future, but which are based on best information as at the valuation date, a significant degree of professional judgment must be exercised in developing these assumptions. Accordingly, changes in future conditions within one year of the financial statement date could require a material change in the recognized amounts.

Estimated future expenditures are expressed in constant dollars and then discounted at the assumed real rate of return on investments (i.e., the difference between expected long-term investment earnings and the expected long-term general inflation rate).

KEY ACTUARIAL ASSUMPTIONS

The table below presents the annual rates for key long-term economic assumptions used to determine the claim benefit liabilities:

	2009	2008
Nominal rate of return	5.58%	5.58%
General inflation rate	2.50%	2.50%
Real rate of return	3.00%	3.00%
Cost-of-living allowance	2.00%	2.00%
Wage escalation	3.50%	3.50%
Health care escalation	6.00%	6.75%

The table below presents a breakdown of WCB's total claim benefit liabilities by benefit category as at December 31, 2009, with details of the transactions during the year:

($ thousands)	2009							2008
	Short-Term Disability	**Long-Term Disability**	**Survivor Benefits**	**Health Care**	**Rehabilitation**	**Claim Administration[1]**	**Total Claim Liabilities**	Total Claim Liabilities
Claim benefit liabilities, beginning of year	$ 402,900	$ 2,081,100	$ 502,400	$ 1,512,700	$ 115,600	$ 291,000	$ 4,905,700	$ 4,606,300
Increase in claim benefit liabilities:								
Claim costs incurred								
Current year injuries	157,065	150,609	22,831	289,481	31,082	79,071	730,139	779,734
Prior years' injuries	19,176	(57,028)	14,521	(56,194)	10,989	43,125	(25,411)	191,901
	176,241	93,581	37,352	233,287	42,071	122,196	704,728	971,635
Decrease in claim benefit liabilities:								
Claim payments made								
Current year injuries	66,865	2,309	831	107,181	2,682	29,971	209,839	215,734
Prior years' injuries	87,676	131,772	44,121	138,806	28,689	62,525	493,589	456,501
	154,541	134,081	44,952	245,987	31,371	92,496	703,428	672,235
Claim benefit liabilities, end of year	$ 424,600	$ 2,040,600	$ 494,800	$ 1,500,000	$ 126,300	$ 320,700	$ 4,907,000	$ 4,905,700

[1] *Claim Administration payments of $92,496 (2008 – $81,904) are comprised of general claim administration (see Note 16) of $83,253 (2008 – $72,902), Appeals Commission of $8,979 (2008 – $8,756) and Medical Panel Office of $264 (2008 – $246).*

CHANGES IN CLAIM BENEFIT LIABILITIES

The table below is a reconciliation of the major changes in the claim benefit liabilities during the year:

($ thousands)	2009		2008
Claim benefit liabilities, beginning of year		$ 4,905,700	$ 4,606,300
Add (deduct) changes in liabilities:			
Provision for future costs of current-year injuries		520,300	564,000
Interest accrued on the liabilities		257,900	241,800
Payments for prior years' injuries, excluding self-insured employers		(485,333)	(448,630)
		5,198,567	4,963,470
Add impact of policy changes:		700	46,000
Add (deduct) changes in actuarial methodology and experience:			
Changes in actuarial methods and assumptions:			
Health care escalation rate change from 6.75% to 6.0%	(134,400)		-
New incidence rates for outstanding economic loss payments	(59,500)		(39,900)
Health care benefits adjustments	61,800		-
Other changes in methods and assumptions	34,700	(97,400)	92,500
Claims experience (gains) and losses:			
Difference between actual and expected long-term cost-of-living adjustments and inflation	(82,000)		25,000
Actual costs less than expected	(86,300)		(96,100)
Other experience gains	(26,567)	(194,867)	(85,270)
		(291,567)	(57,770)
Claim benefit liabilities, end of year		$ 4,907,000	$ 4,905,700

SENSITIVITY OF ACTUARIAL ASSUMPTIONS

The most significant assumption in the determination of the claim benefit liabilities is the real rate of return. The real rate of return is the assumed rate of return in excess of the assumed inflation rate. A reduction in the assumed real rate of return would increase the actuarial present value of the claim benefit liabilities.

Health care benefits represent approximately 30% of the claim benefit liabilities. An increase in the assumed health care escalation rate would result in an increase in the claim benefit liability for health care.

The table below presents key assumptions used to determine the claim benefit liabilities and the sensitivity of the liabilities to an immediate 0.25% increase or decrease in the assumed rates:

($ thousands)	**2009**		2008	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Real rate of return	$ (134,800)	$ 141,800	$ (136,800)	$ 145,600
Health care escalation rate	$ 51,500	$ (49,200)	$ 52,300	$ (49,600)

12. EMPLOYEE FUTURE BENEFITS

LONG-TERM DISABILITY PLAN

WCB administers a non-contributory long-term disability (LTD) income continuance plan for its employees, with the WCB Accident Fund covering the obligations of the plan. LTD benefits are the sum of all liabilities related to claims that have occurred in the period.

The cost of benefits is actuarially based on claims outstanding, a market interest rate, management's best estimate of projected costs and the expected benefit period. Current benefit cost represents the actuarial present value of the expected future payments. Interest cost represents the amount required in each year to build up the liability over the projected benefit period to its future value. Actuarial gains and losses arise from assumption and/or methodology changes and claim experience related to the benefit obligation. Such gains and losses that exceed 10% of the benefit obligation are amortized over the expected average benefit period.

PENSION PLANS

Employee post-retirement benefits are provided through contributory multi-employer defined benefit pension plans sponsored by the Province of Alberta, namely the Management Employees Pension Plan (MEPP) and the Public Service Pension Plan (PSPP). As a plan participant in these multi-employer pension plans, WCB's expense for PSPP and MEPP for the year ended December 31, 2009 is equivalent to the aggregate annual contributions of $7,740 (2008 – $7,215). The employer contribution rates on pensionable earnings are as follows:

MEPP: 18.00% (2008 – 18.00%)
PSPP: 6.69% up to YMPE[iii] (2008 – 6.69%), 9.55% above YMPE (2008 – 9.55%)

At December 31, 2009, the MEPP and PSPP administrators reported plan deficiencies. For these plans, WCB has no further payment obligations once the contributions have been paid; therefore, no liability has been recognized in respect of these plan deficiencies.

[iii] *Year's Maximum Pensionable Earnings under the Canada Pension Plan ($46,300 in 2009; $44,900 in 2008).*

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

WCB sponsors a non-contributory supplemental executive retirement plan (SERP), with the WCB Accident Fund covering the obligations of the plan. Earnings of senior management generally exceed the threshold earnings for the maximum pension benefit permitted under the federal *Income Tax Act*. Under the terms of the SERP, senior management is entitled to receive supplemental retirement payments that bring their total pension benefits to a level consistent with their total earnings. Future pension benefits are based on the participants' years of service and earnings.

The cost of benefits is actuarially determined using the projected benefit method prorated on service, a market interest rate, management's best estimate of projected costs and the expected years of service until retirement. Current benefit cost represents the actuarial present value of the benefits earned in the current period. Current benefit costs are not cash payments in the period, but are the period expense for rights to future compensation. Interest cost represents the amount required in each year to build up the liability over the projected service period to its future value. Actuarial gains and losses arise from assumption and/or methodology changes and claim experience related to the benefit obligation, and are recognized immediately in current expense.

See Note 17 for a detailed breakdown of SERP costs.

POST-RETIREMENT BENEFIT PLAN

WCB provides an unfunded post-employment benefit plan that provides dental and health care benefits to retirees on pension between the ages of 55 to 65. Plan costs are actuarially determined using the projected benefit method prorated on service. As plan participants pay part of the benefit cost, the benefit obligation represents the amount subsidized by WCB.

An actuarial valuation of this obligation was not conducted in prior years as management's estimate of the liability was considered to be immaterial. Given recent cost trends and the level of subsidy provided, a review of this benefit plan was undertaken.

The table below is a summary of the costs and liability balances, as at December 31, 2009, of WCB's employee future benefit plans:

($ thousands)	2009			2008		
	LTD	SERP	Post Retirement	LTD	SERP	Post Retirement
Accrued benefit liability, beginning of year	$ 14,262	$ 1,062	$ -	$ 12,722	$ 1,095	$ -
Current benefit cost	820	274	-	2,202	427	-
Interest cost	717	92	-	573	83	-
Amortization of actuarial (gains) losses	(182)	-	-	(72)	-	-
Actuarial (gains) losses	n/a[1]	(7)	2,682	n/a[1]	(543)	-
Benefit payments	(1,364)	-	-	(1,163)	-	-
Accrued benefit liability, end of year[2]	$ 14,253	$ 1,421	$ 2,682	$ 14,262	$ 1,062	$ -

[1] *LTD plan has unrecognized net actuarial gains for 2009 of $4,023 (2008 - $2,838).*

[2] *Accrued benefit liabilities are included in "Accrued employee benefits" under "Payables and accruals."*

The table below presents key assumptions applicable to WCB-sponsored employee future benefit plans:

	2009			2008		
	LTD	**SERP**	**Post Retirement**	LTD	SERP	Post Retirement
Actuarial valuation date	**12/31/2009**	**12/31/2009**	**12/31/2009**	12/31/2008	12/31/2008	n/a
Discount rate (nominal)	5.5%	6.9%	6.2%	6.65%	6.9%	n/a
Health care inflation rate	4.9%	n/a	5.0%	4.9%	n/a	n/a
Salary escalation rate	3.0%	4.0%	n/a	4.5%	4.0%	n/a

13. PREMIUM REVENUE

($ thousands)	**2009**	2008
Assessed premium revenue	$ 960,849	$ 1,044,036
Self-insured employer revenue (Note 18)	10,727	10,542
Other premium-related revenue	8,326	10,965
	979,902	1,065,543
Deduct: Partnerships in Injury Reduction rebates (Note 10)	71,446	71,776
	$ 908,456	$ 993,767

Assessed premium revenue includes an accrual of $51,410 payable (2008 – $1,477 receivable) for amounts collected from employers in excess of adjusted premiums related to yet-to-be-reported insurable earnings adjustments. The accrual has been determined using a statistical model that estimates the amount of unreported earnings based on actual returns processed to date and historical patterns of processed to unprocessed returns as at a specified point in time. Historically, accruals have ranged from 0.1% to 6.0% of total processed premiums.

Partnerships in Injury Reduction (PIR) rebates are paid to those employers that have met the eligibility requirements in achieving certain workplace safety targets as specified under the program. The estimated rebate amount is based on several factors, including premiums paid, year-over-year improvement on claims experience and safety performance relative to industry benchmarks, among others. Historically, the PIR rebate accrual has averaged 8% of total processed premiums.

For both premium and PIR accruals, the difference between actual and estimated amounts in past years has not been material.

14. INVESTMENT INCOME

Investment income[1] – net *($ thousands)*	**2009**	2008
Interest income		
Bonds	$ 128,168	$ 93,561
Mortgages	8,711	7,355
Cash and cash equivalents	475	5,082
	137,354	105,998
Dividends		
Domestic equities	14,017	15,182
Foreign equities	18,655	34,594
	32,672	49,776
Realized gains (losses) on available-for-sale investments		
Bonds	(38,778)	(45,757)
Domestic equities	(13,746)	(34,585)
Foreign equities	(66,436)	(162,083)
Real estate	6,476	6,355
Infrastructure	39	3
	(112,445)	(236,067)
Derivatives		
Realized gains (losses)	156,964	(85,676)
Unrealized gains (losses)	19,860	(120,965)
	176,824	(206,641)
Property income		
Real estate	15,364	16,005
Infrastructure	3,232	(1,609)
	18,596	14,396
	253,001	(272,538)
Deduct:		
Impairment write-downs – Bonds	8,487	-
Impairment write-downs – Equities	22,555	147,061
Investment-related administration expense[2]	1,963	1,734
	$ 219,996	$ (421,333)

[1] Investment income is net of transaction costs, external management fees and expenses (e.g. custodial, audit, etc.) of $14,319 (2008 $14,502) that are netted against the respective revenue source.

[2] Internal administration expenses are netted against investment income, but not attributed to specific revenue sources.

IMPAIRMENT WRITE-DOWNS

WCB applies a three-step process for recognizing impairment losses on available-for-sale investments:

- identifying investments with significant unrealized losses;
- determining whether the decline in value is temporary or other-than-temporary; and
- removing the entire loss from AOCI and recognizing it in income.

Determining whether an investment is impaired is a matter of judgment. WCB interprets other-than-temporary as a decline in value in excess of normal volatility for 12 consecutive months. For securities whose decline in value is particularly severe, or those operating in a troubled sector, or where the prospects for recovery of carrying value is not probable within the expected holding period, the duration criterion may be waived. In applying judgment, WCB also considers such factors as market conditions, facts and circumstances concerning specific securities and their issuers, expectations of performance and the views of other knowledgeable parties, such as fund managers.

15. OTHER REVENUE

($ thousands)	**2009**	2008
Other	$ 119	$ 206
Millard Health[1]	1,154	1,699
	$ 1,273	$ 1,905

[1] Millard Health revenue is net of operating expenses of $24,974 (2008 - $23,116).

16. ADMINISTRATION EXPENSES

($ thousands)	**2009**	2008
Salaries and employee benefits	$ 120,041	$ 115,708
Office and technology	24,340	25,524
Amortization of intangible assets	10,493	8,019
Depreciation of property, plant and equipment	2,227	752
Building operations	7,442	6,080
Consulting fees	2,356	2,915
Travel, vehicle operation and other	1,200	1,488
	168,099	160,486
Deduct:		
Claim administration costs	83,253	72,902
Investment management expenses charged to investment income	1,963	1,734
Recovery of costs	4,276	3,719
	$ 78,607	$ 82,131

17. SALARIES AND BENEFITS

The table below presents total compensation of the directors and senior management of WCB following the recommendations of the Salary and Benefits Disclosure Directive issued by the Treasury Board of Alberta:

	Base Salary[1]	Other Cash Benefits[2]	Non-Cash Benefits[3]	SERP[4]	Total
			2009		
Chair, Board of Directors[5]	$ -	$ 94,840	$ 3,969	$ -	$ 98,809
Board Members[5]	-	173,822	14,185	-	188,007
President & Chief Executive Officer	344,000	181,110	32,946	46,300	604,356
Vice-president, Disability and Information Management[6]	282,000	104,700	29,917	30,700	447,317
Vice-president, Customer Service and Risk Management	257,000	96,310	30,867	31,600	415,777
Vice-president, Employee and Corporate Services	220,500	72,150	30,840	19,600	343,090
Chief Financial Officer	257,000	95,950	31,817	24,100	408,867
Secretary and General Counsel	216,000	78,684	32,889	22,100	349,673
			2008		
Chair, Board of Directors[5]	$ -	$ 89,688	$ 3,457	$ -	$ 93,145
Board Members[5]	-	175,914	13,004	-	188,918
President & Chief Executive Officer	335,000	179,500	37,459	64,400	616,359
Vice-president, Disability and Information Management[6]	250,000	88,500	29,010	45,300	412,810
Vice-president, Customer Service and Risk Management	250,000	88,500	30,090	39,000	407,590
Vice-president, Employee and Corporate Services	210,000	69,000	29,111	26,700	334,811
Chief Financial Officer	250,000	93,500	31,150	39,000	413,650
Secretary and General Counsel	210,000	69,000	31,986	28,100	339,086

[1] *Base salary is pensionable base pay.*

[2] *Other cash benefits include performance awards, lump sum payments, honoraria, vacation pay and car allowances.*

[3] *Non-cash benefits include employer's share of all employee benefits and contributions or payments made to or on behalf of employees, including statutory contributions, pension plan, health care, dental coverage, vision coverage, out-of-country medical benefits, group life insurance, accidental disability and dismemberment insurance, long-term disability plan, educational costs and professional and other memberships. No amounts are included for the value of parking.*

[4] *Current service cost for the supplemental executive retirement plan (SERP). See Note 12 for details of the plan and the following table for the costs related to each named executive officer.*

[5] *The Chair of the Board of Directors and the nine Board Members are part-time positions.*

[6] *Restructuring of the executive team reduced the number of vice-presidents from six to five. The reallocation of responsibilities to the Vice-president, Disability and Information Management merited a base salary adjustment.*

The current service cost for senior management under the SERP is presented in the table below:

	2009				2008	
	Current Service Cost[1]	Other Costs[2]	Net Cost	Accrued Obligation Dec. 31, 2009	Net Cost	Accrued Obligation Dec. 31, 2008
President & Chief Executive Officer	$ 46,300	$ 21,000	$ 67,300	$ 369,200	$ (52,300)	$ 301,900
Vice-president, Disability and Information Management	30,700	10,900	41,600	195,000	(27,800)	153,400
Vice-president, Customer Service and Risk Management	31,600	12,500	44,100	201,900	2,000	157,800
Vice-president, Employee and Corporate Services	19,600	7,400	27,000	125,000	(8,900)	98,000
Chief Financial Officer	24,100	5,500	29,600	100,500	(4,800)	70,900
Secretary and General Counsel	22,100	8,500	30,600	140,900	(2,100)	110,300
Other senior management and inactive members	99,200	19,800	119,000	288,900	61,100	169,900
	$ 273,600	$ 85,600	$ 359,200	$1,421,400	$ (32,800)	$1,062,200

[1] Current service cost is the actuarial present value of future benefit obligations arising from employee service in the current period.

[2] Other costs include interest on the liability and actuarial gains (losses) arising from assumption changes and/or experience.

18. SELF-INSURED EMPLOYERS

The financial statements include the effects of transactions on behalf of self-insured employers who directly bear the cost of their workers' claims and an appropriate share of administration expenses. Currently, the Federal Government of Canada is the only self-insured employer. This is a contractual relationship in accordance with the *Government Employees Compensation Act*. Certain government-related entities and railways are responsible for the cost of injuries to their workers that occurred when they were self-insured in prior years.

Included in the balance sheets is $1,836 (2008 – $1,804) for receivables. Presented below are the aggregate amounts of premiums and offsetting expenses included in the statement of operations:

($ thousands)	2009	2008
Claim costs	$ 8,519	$ 8,444
Administration	2,208	2,098
Self-insured employer revenue (Note 13)	$ 10,727	$ 10,542

19. INJURY REDUCTION

WCB has a statutory obligation to reimburse the Alberta Minister of Finance and Enterprise a portion of the costs associated with administration of the *Occupational Health and Safety Act*. Funding is also provided to industry-sponsored safety associations to promote improved workplace safety practices. Funding costs incurred are recovered as components of the premium rate charged annually to employers.

The following table shows the amounts paid under these programs:

($ thousands)	**2009**	2008
Occupational Health and Safety	$ 26,400	$ 20,900
Safety associations	13,193	13,479
	$ 39,593	$ 34,379

20. RELATED-PARTY TRANSACTIONS

Included in these financial statements are transactions with various Alberta Crown corporations, departments, agencies, boards and commissions related to WCB by virtue of common influence by the Government of Alberta. Routine operating transactions in the ordinary course of business with related parties are settled at prevailing market prices under normal trade terms.

Included in related-party transactions are certain funding obligations relating to Occupational Health and Safety, the Appeals Commission and the Medical Panel Office that are in accordance with the applicable legislation and/or regulations. Funding costs incurred are recovered as components of the assessed premium rate charged to employers. The amounts outstanding at December 31 and transactions throughout the year related to statutory funding obligations are as follows:

($ thousands)	**2009**	2008
Receivables	$ 2	$ 2
Payables and accruals	$ 2,014	$ 2,044
Expenses	$ 35,335	$ 29,620

21. COMMITMENTS

WCB has obligations under long-term non-cancellable contracts for land, office space, leased equipment and commitments for purchases of goods and services. The following is a schedule of future expenditure commitments:

($ thousands)	**2009**	2008
2009	$ -	$ 18,109
2010	15,100	9,849
2011	10,467	8,581
2012	3,118	1,517
2013	1,940	1,228
Beyond	10,316	8,677
	$ 40,941	$ 47,961

22. CONTINGENCIES AND INDEMNIFICATION

Legal proceedings

WCB is party to various claims and lawsuits related to the normal course of business that are currently being contested. In the opinion of management, the outcomes of such claims and lawsuits are not determinable. Based on the total amount of all such actions, however, WCB has concluded that their outcomes, either individually or in aggregate, will not have a material effect on the results of operations or financial position.

Indemnification agreements

In the normal course of business, WCB enters into contractual agreements that contain standard contract terms to indemnify certain parties against loss. The terms of these indemnification clauses will vary based upon the contract and/or the occurrence of contingent or future events, the nature of which prevents WCB from making a reasonable estimate of the potential amount that may be payable to those contractual parties. Such indemnifications are not significant, nor has WCB made any payments or accrued any amounts in the financial statements in respect of these indemnifications.

23. BUDGET

The Board of Directors approved the 2009 budget in October 2008.

24. COMPARATIVE FIGURES

Certain comparative figures for 2008 have been reclassified where required to conform to the current year's presentation and disclosure.

Appendix: **Glossary**

Actuarial required real rate of return:
The real rate of return (nominal rate less inflation) on actuarially matched investment assets that will generate sufficient income to cover the interest requirement on the liability. Actuarially matched assets represent the sum that must be invested to earn a real rate of return (identical to the real discount rate) to fully discharge the actuarial liability at maturity. See also ***real discount rate***.

Asset-liability management:
A risk management approach that ensures sufficiency of resources to discharge specified obligations by managing the risk characteristics of invested assets relative to liabilities for such factors as yields, duration, volatility and default.

Asset-liability study:
A financial model for determining the appropriate amount and mix of investment assets, given a specified level of risk, to generate a return that is sufficient to fund the interest requirement of matched claim benefit liabilities.

Asset overlay:
A portfolio management strategy designed to replicate an asset or portfolio position without actually holding securities directly. The desired position is achieved by entering into a futures contract or option on the future price movement of a security or an index.

Average premium rate:
Calculated as total revenue requirements divided by the projected insurable earnings for the premium year.

Comprehensive income:
The change in equity (or ***net assets***) of an enterprise during a period from all transactions and events other than investments by and distributions to owners. Comprehensive income is composed of operating income and other comprehensive income, which includes those revenues, expenses, gains and losses that, in accordance with the primary sources of GAAP, are recognized in comprehensive income but excluded from operating income.

Currency overlay:
A foreign-currency risk management strategy used in international investment portfolios to separate the management of currency risk from the asset allocation and security selection decisions of the fund managers.

Derivative:
A ***financial instrument*** whose characteristics and value depend upon the characteristics and value of an underlying security, typically a commodity, bond, equity or currency. Examples of derivatives include futures and options. Derivatives are used to manage the risk associated with the underlying security, to protect against fluctuations in value, or to profit from periods of inactivity or decline.

Fair value:
The amount of the consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In the context of investments, fair value is generally synonymous with market value.

Financial instrument:
Any contract that gives rise to a financial asset (e.g., cash equivalent, accounts or note receivable, share security) of one party and a financial liability (e.g., accounts or note payable, bond) or equity instrument (e.g., stock option, warrant) of another party.

Financial risk:
The possibility or chance that an investment's return will be other than expected, positively or negatively. In general, financial risk has a negative meaning, as in the possibility of losing some or all of the original investment, or adverse changes in its cash flows. For a specific investment, risk is usually measured by calculating the standard deviation of its historical or average returns. See also ***risk***.

Fund management:
Fund management is both a framework and a process designed to maintain a level of funding to ensure the following results:

- Compensation benefits are sustainable and protected.
- Premium rate and funding requirements are predictable.
- The Accident Fund remains solvent.

The Funding Policy, which embodies these objectives, provides direction for management in financial planning and decision making. Key processes for fund management include risk assessment, ***asset-liability management***, application of funding rules, compliance monitoring and governance.

Funded Position:
The excess of total assets less total liabilities, expressed either in dollar terms (see ***net assets***) or as a ratio of total assets to total liabilities. The Funded Position is the measure of financial solvency or the sufficiency of assets to meet all obligations. It is the aggregate amount of accumulated equity generated by operating surplus, reserves and other comprehensive income.

Funded ratio:
The Funded Position expressed as a percentage of total liabilities, indicating the amount of accumulated surplus, investment holding gains or losses, and reserves available to fund unexpected increases in liabilities. Funded ratio is the key metric of financial solvency used in ***fund management***.

Hedging:
A portfolio management activity designed to modify an entity's exposure to one or more financial risks by creating an offset between changes in the fair value of or the cash flows attributable to the hedged item and the hedging item (or the changes resulting from a particular risk exposure relating to those items).

Mark to market:
The accounting process of adjusting the book or carrying value of a security, account or portfolio to its current market value in the financial statements. When market values are not available or are unreliable, an alternative approach is mark to model, which uses the output of a valuation technique or financial model to approximate the expected value.

Meredith Principles:
In his report on workers' compensation in 1913, then-Chief Justice of Ontario Sir William Meredith outlined a framework now commonly known as the Meredith Principles:

- Workers receive compensation benefits regardless of fault for work-related injuries.
- Employers share collective liability for the costs of work-related injuries and, in return, employees waive the right to sue.
- Injured workers are entitled to prompt payment of benefits, and future payments are guaranteed.
- The workers' compensation agency has exclusive jurisdiction over all legal matters arising out of the enabling legislation.
- The agency is financially independent of the government and enjoys full autonomy over all administrative and adjudicative matters.

Net assets:

The excess of total assets less total liabilities, another expression of ***Funded Position*** in dollar terms. When total liabilities exceed total assets, the deficit is known as unfunded liability.

Real discount rate:

The rate used to discount the actuarial projections of all future claim benefit payments back to present value. The rate is based on the real rate of return that the investment portfolio is expected to generate over the long term. The real discount rate is also called the net discount rate or the ***actuarial required real rate of return*** when applied in a portfolio context.

Real rate of return:

The annual percentage return realized on an investment, adjusted for changes in prices due to inflation or deflation.

Return:

The interest and dividend income and the capital gains or losses associated with an investment. The return is usually quoted as a percentage of the investment's market value (market return) or its book value (book return). Performance of an investment or a pool of investments is the actual rate of return over a given evaluation period.

Risk:

In general, risk is the possibility or chance that a future event or outcome will be different than expected, either positively or negatively. See also ***financial risk***.

2009 Year at a Glance

	2009	2008
Number of workers covered	1,730,758	1,830,749
Time-lost claim rate (per 100 workers)[1]	1.6	1.8
Disabling-injury rate (per 100 workers)[1]	2.8	3.4
Number of new claims reported	140,198	167,896
Number of time-lost claims[1]	27,100	32,800
Number of recurrent claims[2]	34,758	16,696
New non-economic loss and permanent disability awards	2,828	2,852
Fatality claims accepted	110	166
Ineligible time-lost claims (% of all time-lost claims)	8.4%	7.5%
Number of new requests for review to the DRDRB	2,676	2,620
Return-to-work percentage	93.1%	92.7%
Claim costs (thousands)	$704,728	$971,635
Registered employers	137,273	140,184
Premium revenue (thousands)	$908,456	$993,767
Average collected premium rate (per $100 of insurable earnings)	$1.24	$1.33
Investment revenue (thousands)	$219,996	$(421,333)
Funded position (thousands)	$1,433,193	$590,330
Funded ratio (per cent funded)	128.4%	111.7%

[1] *Time-lost claims and the time-lost claim and disabling-injury rates are projected. This approach is taken to ensure claims for accidents occurring in 2009 but not reported by year end are considered.*

[2] *Previously inactive claims reopened for a number of reasons including payments for medical aid or requests for further compensation benefits.*